Investor Presentation

IFRS Group Result 2016

INVESTOR RELATIONS
HAMBURG, 30 MARCH 2017

HSH
NORDBANK

HSH Nordbank AG – Strong market position in the region of Northern Germany

Hamburg | Schleswig-Holstein | Lower Saxony | Mecklenburg-Western Pomerania | Bremen

- Almost **1/5 of Germany's economic output** is generated in the Northern German states.[1]
- **Pioneer in wind energy:** Around 50% of the German wind power plants are located in the North. Almost all large producers and utility companies are based in the region.[2]
- **Hamburg is one of the "big 7" when it comes to commercial real estate:** Transaction volume rose by 14% to EUR 4.8bn in 2016[3]
- **Foreign trade:** Around 18% of German imports and exports originate from the north, ports are major hubs for nationwide foreign trade[4]
- **Healthcare:** Around 6,100 companies from the healthcare sector and 56 hospitals ensure care for 490,000 patients in our core region of Hamburg[5]
- **Centre of education:** Around 15 percent of all students in Germany are enrolled at 75 universities and other higher education institutions in the North[6]
- **One of Germany's technology hubs:** Ideal conditions for entreprneurs. With 25 start-ups for every 1,000 inhabitants, Hamburg comes in 2nd in the city rankings as a centre for the media and digital economy[7]
- **Hamburg as a maritime hub:** Around 350 shipping companies are based in the North, with a good 1/3 of them in Hamburg[8]
- **Port of Hamburg:** Thanks to a positive economic development, cargo turnover is expected to increase by 4% per year. Good connections with the hinterland give Hamburg a key competitive advantage[9]

[1] German Federal Statistics Office (2015); [2] German Wind Energy Association (2016); [3] JLL transaction volume for commercially used properties; [4] Hamburg Chamber of Commerce; [5] Clusterplattform Deutschland of the Federal Ministry for Economic Affairs, Health Economy Hamburg; [6] Hamburg Chamber of Commerce; [7] KfW Start-up Monitor 2016; [8] German Shipowners' Association [9] Study on the Hamburg metropolitan region in 2020: Transport infrastructure and its utilisation, HWWI and HSH

HSH Nordbank AG at a glance

HSH NORDBANK

EaD[1]: EUR 83.6bn
Net income before taxes: EUR 121mn

Core Bank

- The Core Bank comprises the strategic market units and the services offered by the Treasury & Markets and Transaction Banking divisions
- Major restructuring measures implemented over the last few years have laid the foundation for, and created the organisational structure of, today's Core Bank, improving efficiency levels considerably
- Segments:
  - Corporate Clients
  - Real Estate Clients
  - Shipping
  - Treasury & Markets
- Main earnings components of the product division Transaction Banking allocated to the market units

EaD[1]: EUR 51.7bn
Net income before taxes: EUR 639mn

Non-Core Bank

- The Non-Core Bank includes non-strategic and non-performing assets (mainly legacy burdens from the period prior to 2009), the aim being to reduce them
- At the moment, loans from Shipping (46%), Real Estate Clients (19%) and Divestments (16%) dominate the portfolio of the Non-Core Bank
- The NPE[2] share is largely covered by the guarantee
- Since 2009, the guaranteed portfolio has been actively reduced from EUR 183bn to an EaD[1] of EUR 28.8bn, thereof EUR 18.2bn have been allocated to the Non-Core Bank as at the end of 2016
- Allocation of minor earnings components of the product division Transaction Banking to the Non-Core Bank

EaD[1]: EUR 21.4bn
Net income before taxes: EUR -299mn

Other and Consolidation

- Includes segments not subject to a reporting requirement, strategic functions and Overall Bank positions at Group level
- Equity and liquidity portfolio (liquidity reserve)
- Results from restructuring and privatisation are reported here in full

EaD[1]: EUR 10.5bn
Net income b. t.: EUR -219mn

[1] Exposure at Default; [2] Non-Performing Exposure

HSH Nordbank AG – A specialised corporate lender

HSH NORDBANK

Corporate Clients

- ✓ A leading financer to upper medium-sized corporates, especially in Northern Germany
- ✓ Excellent expertise in focus sectors
- ✓ Asset management and advisory business (structured finance and M&A)

Real Estate Clients

- ✓ A leading position in the resilient and attractive German real estate market for years
- ✓ Gross interest margin ahead of market average due to excellent sales team with expertise also for complex finance solutions and high degree of execution excellence

Shipping

- ✓ Globally recognised franchise with very strong client relationships
- ✓ Excellent asset expertise across all segments and regions
- ✓ Very high restructuring expertise

Treasury & Markets

- ✓ Strong sector-specific know-how
- ✓ Provider of tailor-made solutions for our clients
- ✓ Focus on generating stable net commission income
- ✓ Well established and diversified funding platform, incl. Pfandbriefe, ABF[1]

[1] Asset-based funding

HSH Nordbank AG – Review of 2016: Solid alignment as the basis for the privatisation process

HSH NORDBANK

Operational positioning (efficiency, capital, liquidity and franchise) **improved considerably ...**

- **Improved cost structure:** Cost reduction programme implemented consequently and plan 2016 achieved. Streamlined organisational structure i. a. by reduced business units and Management Board resorts
- **Improved processes:** Ongoing process optimisation using lean management and the "Digital Business" initiative. Realisation of efficiency potential also strengthens positioning vis-à-vis clients
- **Portfolio reallocation:** Core Bank and Non-Core Bank reporting structures adjusted. This optimises the Core Bank portfolio and reduces the complexity of the Group structure
- **Integrated Overall Bank management:** Internal steering system developed further in line with statutory requirements. Holistic perspective ensures monitoring of all KPIs[1]
- **Improved capital and liquidity position:** Solid capital and liquidity ratios meet expectations of market participants and contribute to rating stability
- **Improved franchise:** Strong new business proves high level of acceptance among clients and is a key component for successful privatisation

... and successfully started in the privatisation process

- **Comprehensive pre-marketing:** Talks with investors in Europe, the United States and Asia. Additional talks with all federal state banks (Landesbanken) and the German Savings Bank Association (DSGV)
- **Successful sale of legacy portfolio:** EUR ~1.6bn EaD[2] placed on the market (subject to approval of anti-trust authorities in Q2 2017) and NPE volume reduced as a result
- **Intensive and transparent communication:** Proactive and open communication on the privatisation process involving key internal and external stakeholders
- **Ensuring a stable rating:** Moody's and Fitch confirm HSH's current rating position even in a difficult environment (shipping), also with regard to the ongoing privatisation process

In 2016, HSH Nordbank achieved a lot in operational terms and made a key contribution to a successful outcome of the privatisation process

[1] Key Performance Indicators; [2] Exposure at default

HSH NORDBANK

Agenda

1. Change in ownership
2. Financial key figures 2016 – Core Bank/Non-Core Bank
3. Financial key figures 2016 – Group
4. Outlook for 2017
5. Appendix

Successful start of the privatisation process, federal states steering the sales process

Change in ownership

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Start of the official sales process

- Official start of the sales process marked by the sales announcement published in the German and international press on 23 January 2017
- Early start gives sufficient time for due diligence of interested investors and for the necessary consultation and approval processes
- Citigroup appointed as advisor to the federal states for the privatisation process and to serve as the contact for the sales process
- Conventional M&A auction in an open, transparent and non-discriminatory sales process conducted in line with the requirements imposed by the European Commission

Sale of a legacy portfolio

- Losses of sold legacies are generally to be covered by the guarantee of the federal states
- Sensitivity to exchange rates decreases, as legacies predominantly sold in foreign currencies
- Valuation effects recognized in P&L 2016, purchase price[1] nearly corresponds to carrying amounts, consequently, no additional significant loan loss provisions required
- Transaction is part of the EU decision, among others the antitrust authorisation is still required and should be completed in the second quarter of 2017 (closing)
- Talks on the sale of further packages from this market portfolio are at an advanced stage, focusing on non-strategic legacy assets from the energy sector

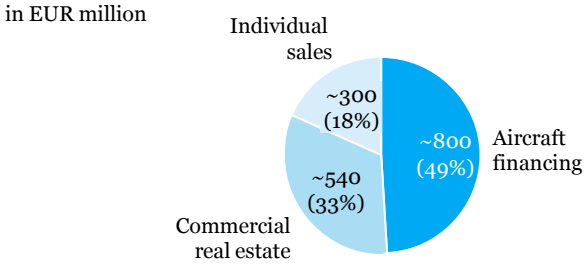
Excerpt from the sales announcement:

Sale of HSH Beteiligungs Management GmbH's participation in HSH Nordbank AG

Notice inviting expressions of interest

HSH Beteiligungs Management GmbH ("the Seller"), which is (in-)directly >90% owned by the Federal States of Hamburg and Schleswig-Holstein (together "the Länder"), intends to sell up to 94.9% (which under certain circumstances may be increased to 100%) of the shares in HSH Nordbank AG ("HSH Nordbank") for a cash consideration in an open, transparent, competitive and non-discriminatory bidding process, in accordance with the European Commission's state aid decision of 2 May 2016 (OJ L 319, 25.11.2016, p. 13).

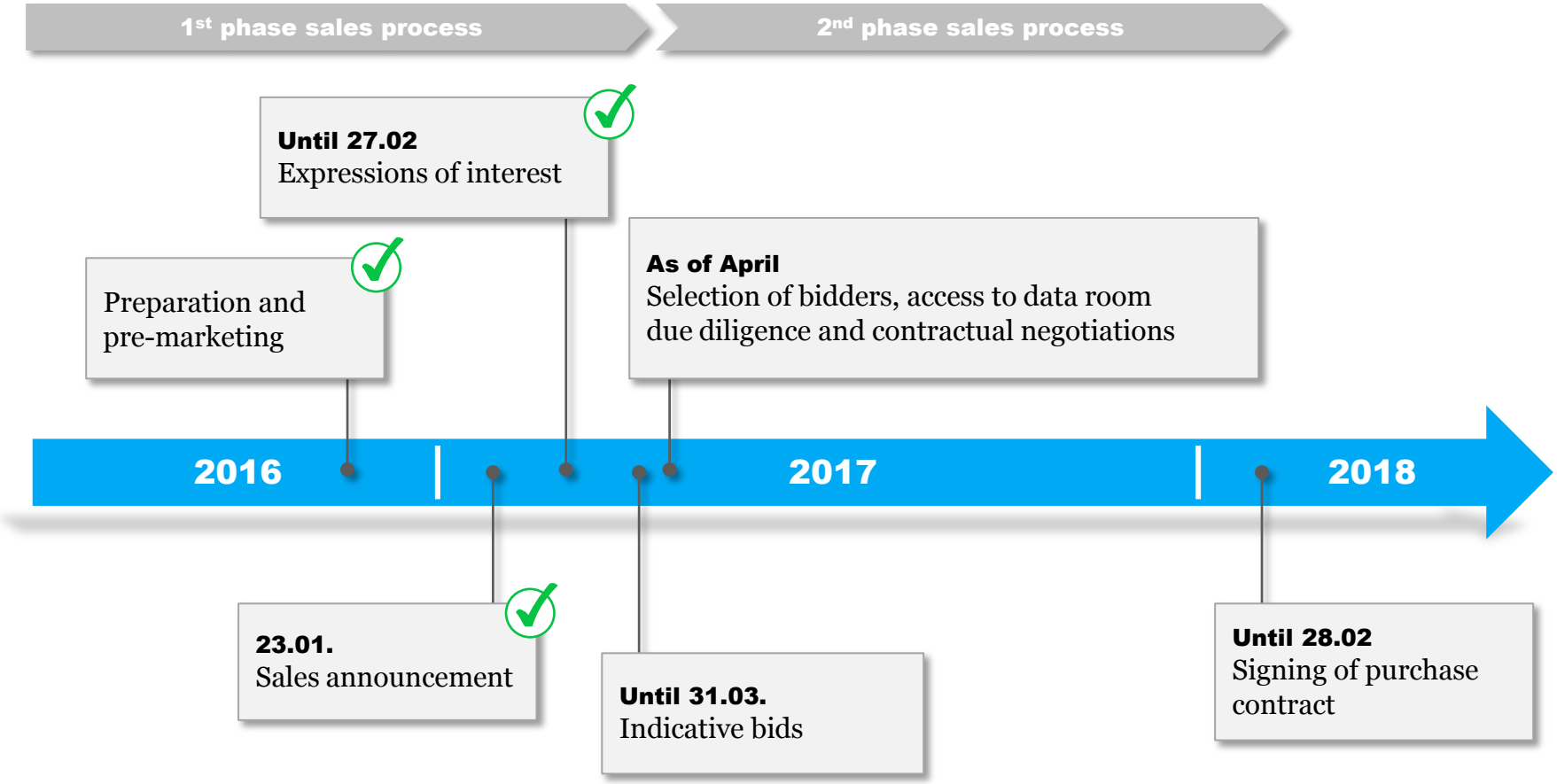
Legacy portfolio - total: around EUR 1.64bn



[1] The parties agreed to maintain secrecy with regard to the purchase price

Next steps for the change in ownership

Change in ownership



Target level 2018PLUS provides good prospects for potential new owner

Change in ownership

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- Indicative illustration -

2015 — Basis for structural changes

2016 — Completion of EU state aid proceedings & transfer of federal state portfolio

2017 — Sales process and sale of the 1st tranche of the market portfolio

2018PLUS

Competitiveness of Core Bank in focus:

- Capital
- Liquidity
- Efficiency

Target achievement by:

- Growth of income from new business
- Cost reduction programme
- Measures to strengthen CET1

	Core Bank	Non-Core Bank
Total income potential in EUR million	750 to 800	30 to 50
Net income potential before taxes in EUR million	350 to 450	-150 to -200
Return on equity before taxes, in %	> 10.0	negative
CIR[1] in %	< 40	> 100

	Total Bank (incl. Other and Consolidation: ~ -70 Mio. EUR)
CIR[1] in %	~50
CET1 ratio phase-in	> 13.0
Leverage ratio in %	~7.0
NPE[2] **ratio** in %	~11
Coverage ratio (thereof Shipping) in %	~ 48 (~ 60)

[1] The cost-income ratio represents the ratio of administrative expenses to total income, plus "other operating result"; [2] Non-performing exposure

HSH NORDBANK

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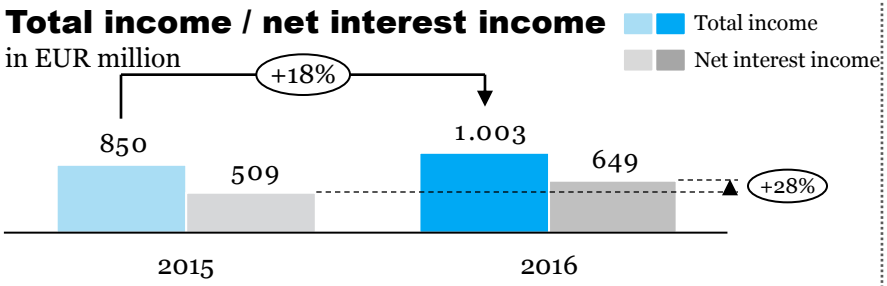
Core Bank with a good net income before taxes

Financial key figures 2016 – Core Bank

Total income / net interest income

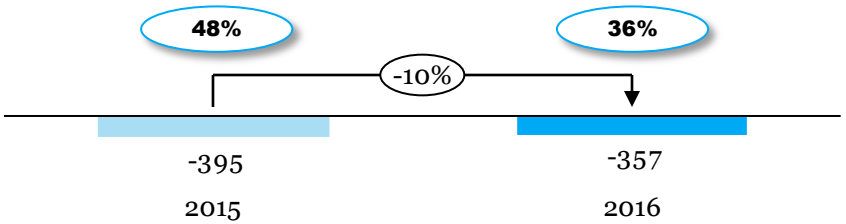
in EUR million



- **Total income** of the Core Bank increased by 18% to EUR 1.0bn (PY: EUR 850mn)
- **Net interest income** with main contribution to earnings (65%)

Administrative expenses / CIR[1]

in EUR million



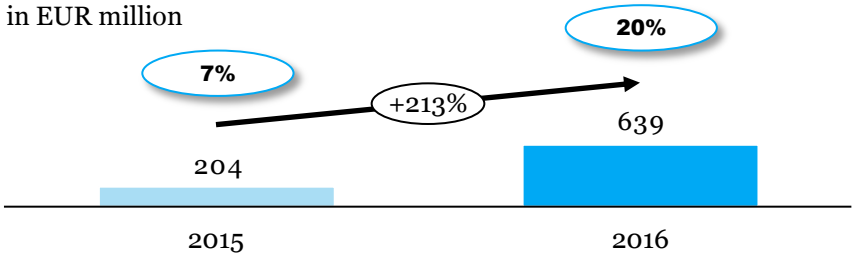
- **Administrative expenses** further reduced thanks to successful implementation of the cost reduction programme
- **CIR** further decreased thanks to the positive development in total income and lower administrative expenses

Net loan loss provisions (after guarantee and hedging effect of the credit derivative), in EUR million

- **Loan loss provisions** characterised by manageable requirement for new loan loss provisions in Shipping (EUR -29mn) and by reversals in the Corporate Clients and Real Estate areas
- **Net loan loss provisions before guarantee** of **EUR 12mn** confirm the good portfolio quality

Net income before taxes / RoE[2]

in EUR million



- **Net income before taxes** shows the success in the operating business
- Sales of promissory notes and securities - largely in the 2nd quarter - had a positive impact

[1] The cost-income ratio represents the ratio of administrative expenses to total income, plus "other operating result"; [2] Return on equity is calculated as the ratio of net income before taxes to average reported equity

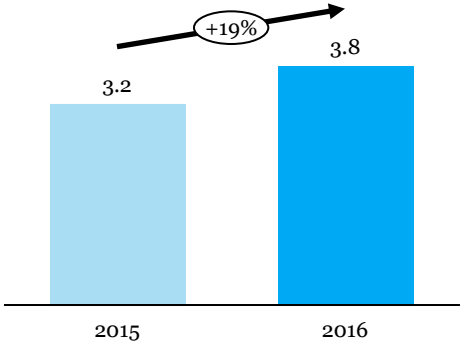
Corporate Clients – New business greatly improved

Financial key figures 2016 – **Core Bank**

HSH NORDBANK

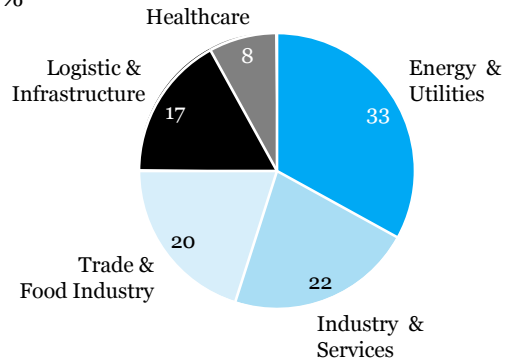
New business

in EUR billion



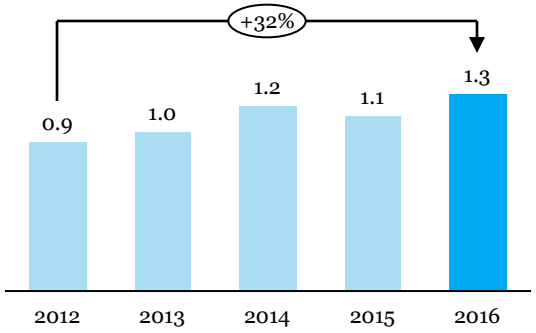
New business by focus sectors

in %



New business development: Energy & Utilities

in EUR billion



Development in 2016 & strategic direction

- **Corporate Clients** has increased its earnings contribution by 16% to EUR 89mn despite a very intense competitive environment (PY: EUR 77mn)
- Broader customer base in all locations and marked increase in new business compared to previous year (+19%), whereas low interest rates and good liquidity resources among companies have an encumbering effect
- Focus on project financing in the division wind energy (onshore projects) in Germany and Scandinavia, and in the divisions rail traffic, district eating grids and data infrastructure

Overview of key figures

in EUR million

	2015	2016
EaD[1] (in EUR billion)	13.9	14.2
Total income	252	251
Net loan loss provisions[2]	-10	-5
Administrative expenses	-160	-149
Net income before taxes	77	89
CIR[3] (in %)	61	58

[1] Exposure at default, after portfolio reallocation in each case; [2] After guarantee effects, foreign exchange result and hedging effect of the credit derivative; [3] Cost-income ratio represents the ratio of administrative expenses to total income plus "other operating income"

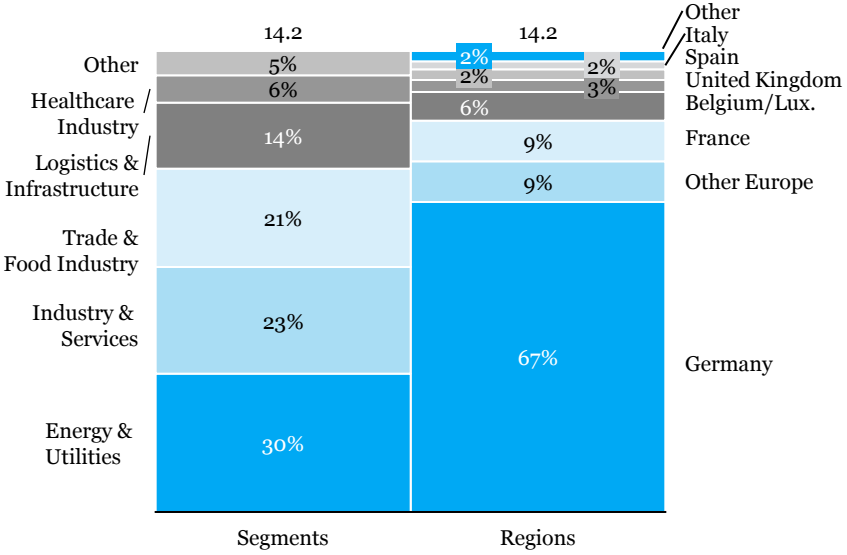
Corporate Clients – Very solid portfolio quality

Financial key figures 2016 – Core Bank

HSH NORDBANK

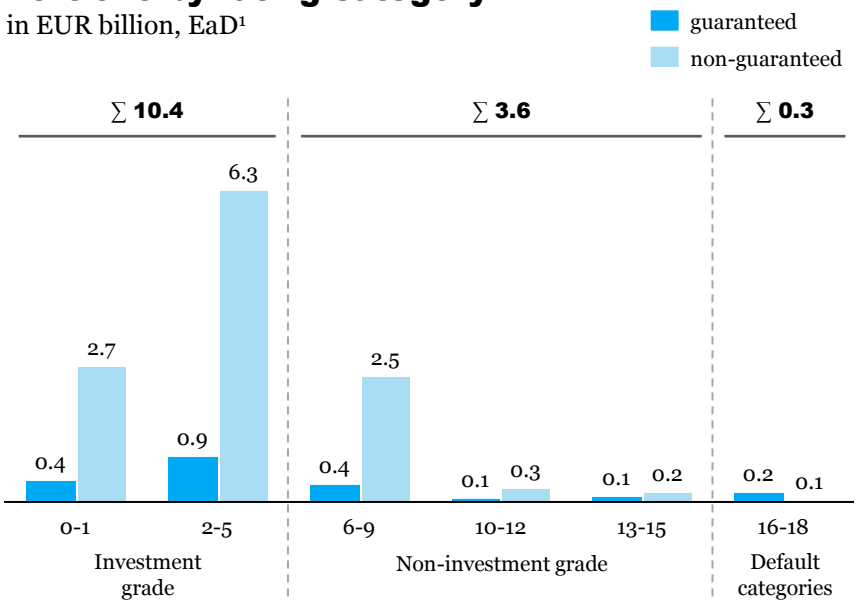
Portfolio by segment and region

in EUR billion, EaD[1]/percentage



Portfolio by rating category

in EUR billion, EaD[1]



- Project finance in the focus sector Energy & Utilities dominates the portfolio with EUR 4.3bn (30%)
- Domestic borrowers account for EUR 9.5bn (67%) and international, mainly European, borrowers for EUR 4.7bn (33%) of the financing transactions
- Good diversification across the focus sectors

- Corporate Clients portfolio of EUR 14.2bn EaD in total, of which EUR 10.4mn (73%) in investment grade and EUR 13.3mn (94%) in rating categories 0 to 9
- NPE ratio of 1.8% on an NPE[2] of EUR 257mn, which is largely guaranteed
- Total loan loss provisions of EUR 65mn equivalent to a coverage ratio of 25%
- EUR 2.1bn (15%) of portfolio covered by guarantee

[1] Exposure at default; [2] Non-performing exposure, default categories 16 to 18

Corporate Clients – Selected deals closed in 2016

Financial key figures 2016 – Core Bank

HSH NORDBANK

WIND FARM

MONT D'ERNY
EUR 29,600,000

France
Project finance
Sole MLA

2016 HSH NORDBANK

GP JOULE

EUR 12,000,000

Germany
Syndicated RCF
Sole MLA

2016 HSH NORDBANK

WINDPARK GAGEL GMBH & CO KG

EUR 104,000,000

Germany
Project finance
MLA

2016 HSH NORDBANK

SOLARPARK VANDEL I

EUR 64,500,000

Denmark
Project finance
Sole MLA

2016 HSH NORDBANK

WIND FARM GORTNACLOGHY

EUR 13,000,000

Ireland
Project finance
Sole MLA

2016 HSH NORDBANK

ADVEN OY

EUR 360,000,000

Finland
Acquisition financing
Mandated lead arranger

2016 HSH NORDBANK

AKIEM

EUR 750,000,000

France
Mandated lead manager

2016 HSH NORDBANK

WAGGONBAU NIESKY

EUR 20,000,000

Germany
Sole arranger

2016 HSH NORDBANK

EDGE CONNEX

EUR 290,000,000

The Netherlands
Senior debt
Mandated lead arranger
Facility agent

2016 HSH NORDBANK

ITAL GAS STORAGE

EUR 862,000,000

Italy
Senior debt
Co-lender

2016 HSH NORDBANK

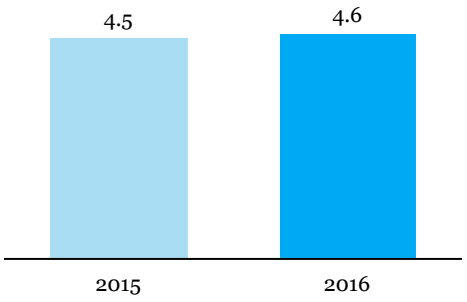
Real Estate Clients – Consistently strong new business and increase in earnings contribution

Financial key figures 2016 – **Core Bank**

HSH NORDBANK

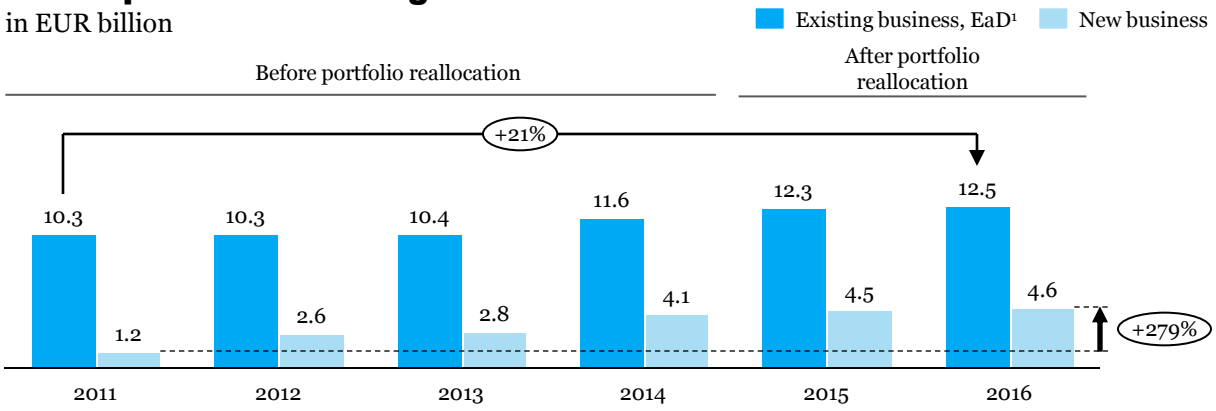
New business

in EUR billion



Development of existing and new business

in EUR billion



Development in 2016 & strategic direction

- **Real Estate** generated significant net income before taxes of EUR 148mn, which is above the previous year's level (EUR 131mn) by 13% and reflects the Bank's good market position
- New business slightly expanded to 4.6bn in an increasingly competitive environment
- Business in the western German metropolitan regions and with international institutional investors also contributed to this year's success
- High market penetration maintained in the core region of Northern Germany

Overview of key figures

in EUR million

	2015	2016
EaD[1] (in EUR billion)	12.3	12.5
Total income	187	218
Net loan loss provisions[2]	11	0
Administrative expenses	-56	-57
Net income before taxes	131	148
CIR[3] (in %)	30	26

[1] Exposure at default, after portfolio reallocation in each case; [2] After guarantee effects, foreign exchange result and hedging effect of the credit derivative; [3] Cost-income ratio represents the ratio of administrative expenses to total income plus "other operating income"

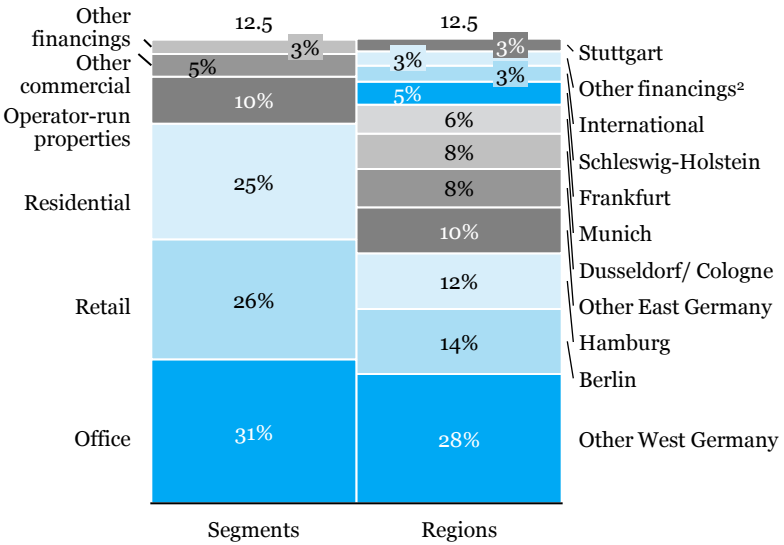
Real Estate Clients – Good level of diversification by segment and region

Financial key figures 2016 – Core Bank

HSH NORDBANK

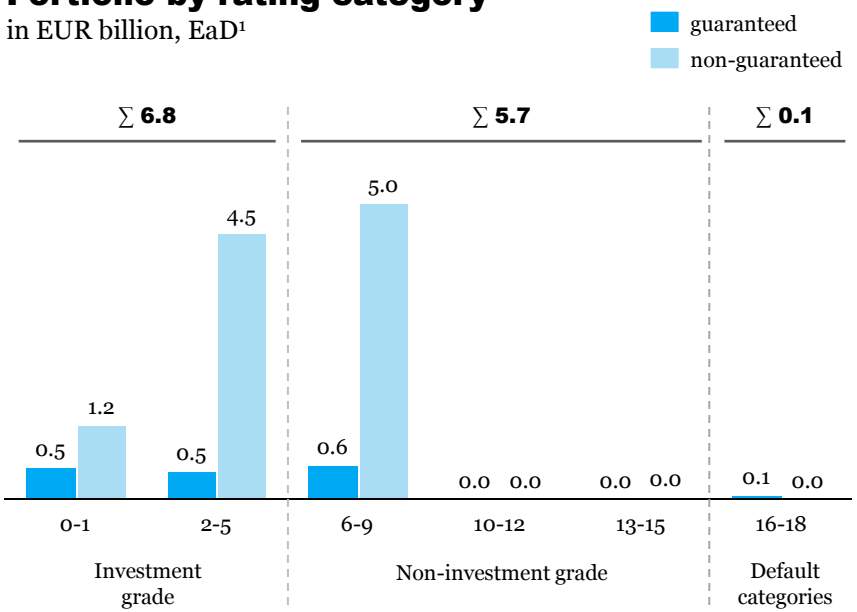
Portfolio by segment and region

in EUR billion, EaD[1]/percentage



Portfolio by rating category

in EUR billion, EaD[1]



- EUR 6.3bn (50%) of the portfolio is attributable to financings in German metropolitan areas
- Portfolio shows good diversification in terms of type of usage
- Project development accounts for a share of < 20% of the total portfolio
- Continued expansion of transactions eligible for the cover pool

- Real Estate portfolio of EUR 12.5bn EaD in total, of which EUR 6.8bn (54%) investment grade and EUR 12.4bn (99%) in rating categories 0 to 9
- NPE ratio of 0.6% on an NPE[3] of EUR 71mn, which is almost fully guaranteed
- Total loan loss provisions of EUR 39mn equivalent to a coverage ratio of 55%
- EUR 1.7bn (14%) of portfolio covered by guarantee

[1] Exposure at default; [2] No regional allocation, as no property collateral; [3] Non-performing exposure, default categories 16 to 18

Real Estate Clients – Selected deals closed in 2016

Financial key figures 2016 – Core Bank

HSH NORDBANK

SATURIA Fondsmanagement GmbH

RETAIL PORTFOLIO

EUR 50,000,000

Portfolio financing
Sole lender

2016 HSH NORDBANK

Deutsche Wohnen

RESIDENTIAL PORTFOLIOS

EUR 154,000,000

Portfolio financing
Sole lender

2016 HSH NORDBANK

Engelhardt Unternehmensgruppe

ERLANGER HÖFE

EUR 120,230,000

Erlangen
Project development
Sole lender

2016 HSH NORDBANK

HLG Amandla International

RETAIL PROPERTY

EUR 18,000,000

Herford
Project development
Sole lender

2016 HSH NORDBANK

GOLDEN STAR PROPERTIES

TRAINING ACADEMY

EUR 28,000,000

Unterschleissheim
Acquisition financing
Sole lender

2016 HSH NORDBANK

BAUWENS

GLEISDREIECK

EUR 46,530,000

Berlin
Construction project
Sole lender

2016 HSH NORDBANK

W&S IMMOBILIEN GRUPPE

FRAUENLANDETAGEN

EUR 26,150,000

Würzburg
Construction project
Sole lender

2016 HSH NORDBANK

NEWPORT

RESIDENTIAL/COMMERCIAL PROPERTY

EUR 23,750,000

Ratingen
Acquisition financing
Sole lender

2016 HSH NORDBANK

GATEWAY REAL ESTATE AG

OFFICE PROPERTY

EUR 53,000,000

Erlangen
Acquisition financing
Sole lender

2016 HSH NORDBANK

BECKEN

STIFTSTRASSE 23

EUR 46,000,000

Frankfurt
Real property financing
Sole lender

2016 HSH NORDBANK

Shipping – Portfolio reduced considerably

Financial key figures 2016 – Core Bank

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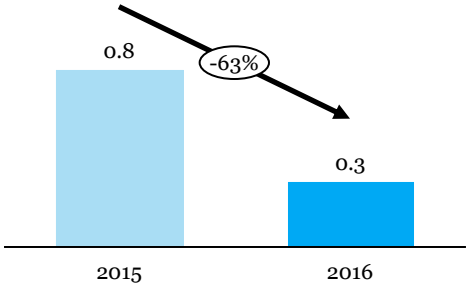
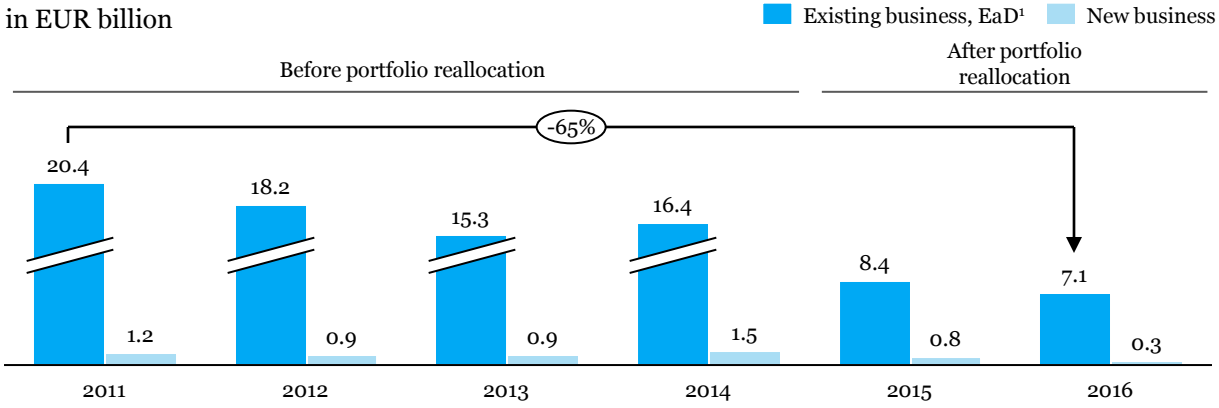
New business

in EUR billion



Development of existing and new business

in EUR billion



Development in 2016 & strategic direction

- **Shipping** generated net income before taxes of EUR 104mn, which was significantly above previous year's level (EUR -166mn) and was primarily driven by loan loss provisions of EUR 52mn after guarantee effects and reversal of GLLP[1]
- Given the challenging market environment, selective new business with clients of good credit ratings was subdued and, as expected, clearly below the prior-year level
- The focus is on further developing and diversifying the portfolio with clients with good credit ratings

Overview of key figures

in EUR million

	2015	2016
EaD[2] (in EUR billion)	8.4	7.1
Total income	127	127
Net loan loss provisions[3]	-169	52
Administrative expenses	-63	-53
Net income before taxes	-166	104
CIR[4] (in %)	66	41

[1] General loan loss provision ; [2] Exposure at default, after portfolio reallocation in each case; [3] After effects relating to the guarantee, foreign exchange result and hedging effect of the credit derivative; [4] Cost-income ratio represents the ratio of administrative expenses to total income plus "other operating income"

Shipping – Portfolio characterised by current market situation

Financial key figures 2016 – Core Bank

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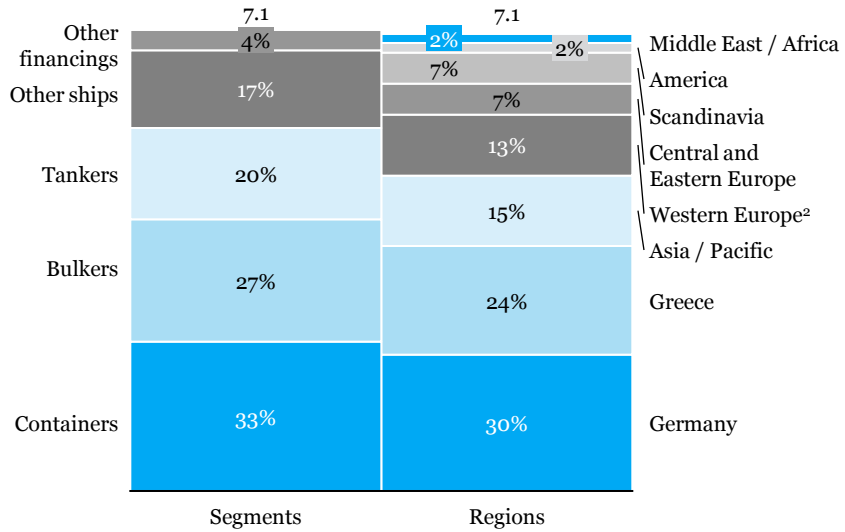
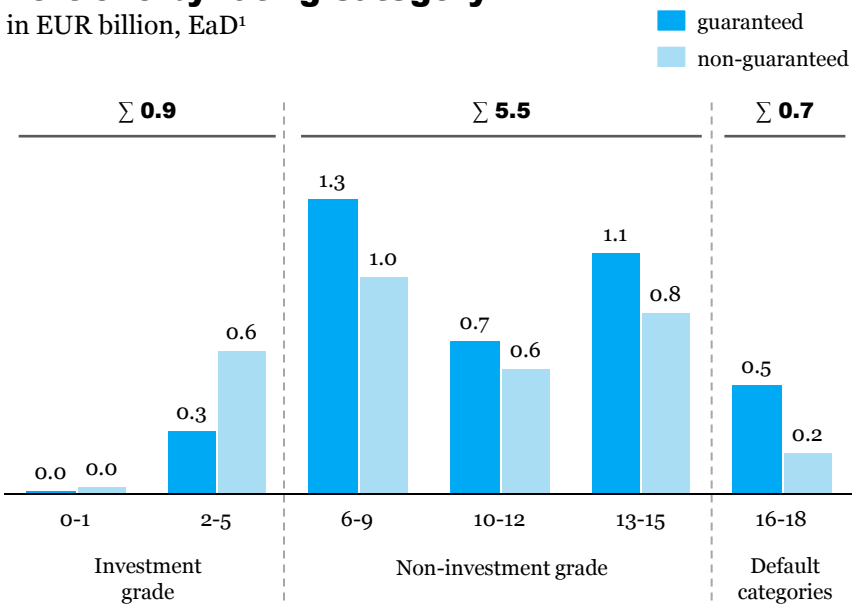
Portfolio by segment and region

in EUR billion, EaD[1]/ in %



Portfolio by rating category

in EUR billion, EaD[1]



- EUR 5.0bn (70%) of loans attributable to international and EUR 2.1bn (30%) to domestic shipping clients
- Containers account for a significant proportion (EUR 2.3bn, or 33%) of the Core Bank's Shipping portfolio, but significantly reduced compared to the previous year (44%)
- The average age of the ships is 6.7 years
- Number of financed ships comes to 685

- Shipping portfolio of EUR 7.1bn EaD in total, of which EUR 0.9bn (14%) in investment grade and EUR 3.2bn (46%) in rating categories 0 to 9
- NPE ratio of 9.6% on NPE[3] of EUR 676mn, of which EUR 486mn guaranteed
- Total loan loss provisions of EUR 456mn equivalent to a coverage ratio of 68%
- Guarantee covers EUR 3.9bn (55%) of the portfolio

[1] Exposure at default; [2] Excluding Germany, Scandinavia and Greece; [3] Non-performing exposure, default categories 16 to 18

Shipping – 90% of assets are "performing"

Financial key figures 2016 – Core Bank

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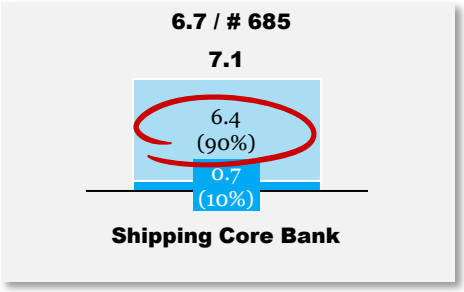
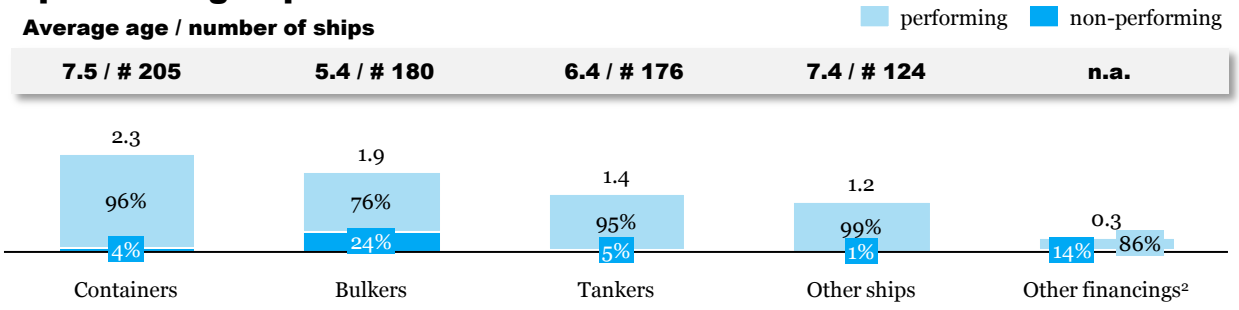
Portfolio by performing and non-performing exposure

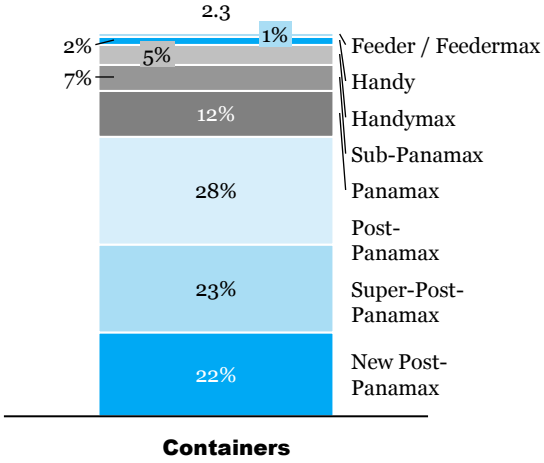
in EUR billion, EaD[1]

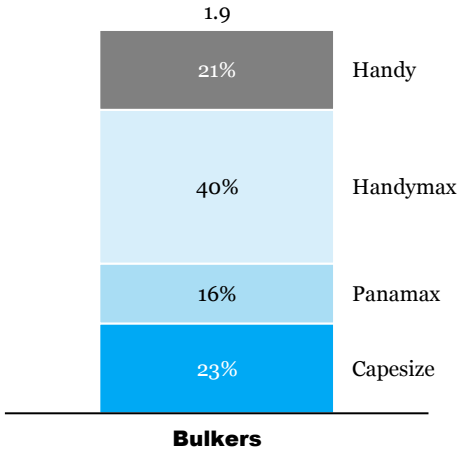


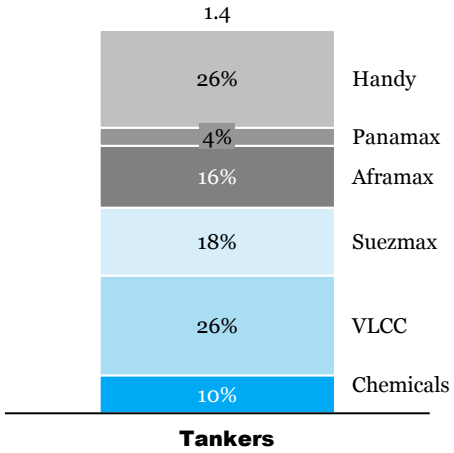


Diversification within the three large ship classes

in EUR billion, EaD[1]







[1] Exposure at default; [2] Including working capital financing

Uncertainty in shipping markets still requires cautious risk planning

Financial key figures 2016 – Core Bank

HSH NORDBANK

1 Global economy / demand

- Continuation of global economic recovery accompanied by growth in trade
- Low oil price and high oil supply encourage demand
- Recovery in trade in iron ore, cereals and coal
- Insecurities as to the political situation have a dampening effect on the economy/global trade

2 Ship offering

- Very few new orders for ship tonnage reduce the surplus supply
- Decline in number of shipyards leads prospectively to higher prices for new vessels
- Historically high numbers of scrapping
- Accelerated consolidation, particularly in the “container vessels” segment

3 Development in market equilibrium

- Stronger growth of demand than supply leads to an increase in fleet utilisation for bulkers and containers
- In the tanker segment: After a decline in fleet utilisation a moderate rise again during 2017
- Early indicator: Freight rates rising in all three main segments

4 Development of charter rates and ship values

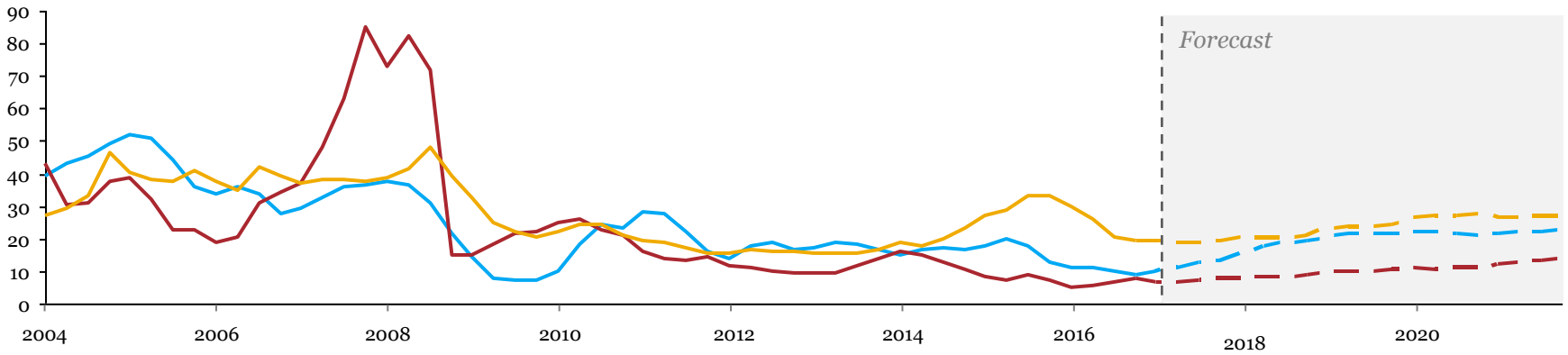
- A moderate rise in charter rates and ship values from the current "all-time low" by historical comparison
- Tankers: Stabilisation well below the peak values of 2015
- Despite expected growth, debt service ability will not be achieved entirely in the medium term

First signs pointing towards a moderate improvement of the shipping market

Financial key figures 2016 – **Core Bank**

HSH NORDBANK

One-year time charter rates for containers, bulkers, tankers (in EUR thousands)[1]



Progressive consolidation

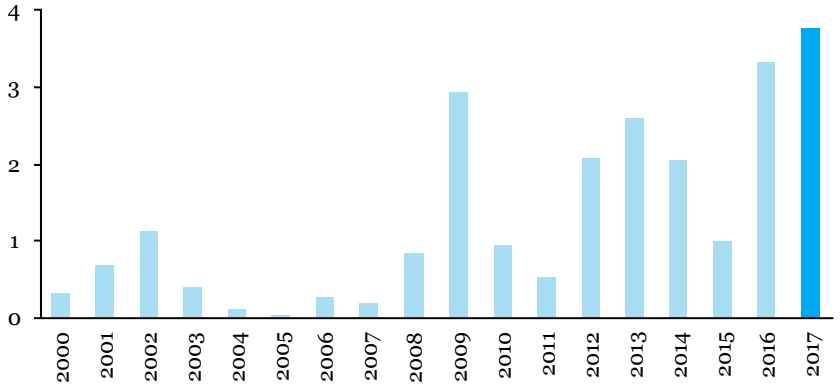
2015
2016
2017

- Takeover of NOL by CMA CGM
- Merger COSCO and CSCL into China COSCO
- Takeover of Hamburg Süd by Maersk
- Joint venture MOL, NYK Line, K Line
- Takeover of UASC by Hapag Lloyd (vss.)
- Takeover of OOCL by CMA CGM, COSCO or Evergreen (at discussion stage)

Total capacity at top 10 shipping lines[2]		
	1996	45%
	2016	75%

Increase in scrapping – Container[3]

in % of fleet



[1] Sources: History – Clarkson; forecast up to Oct. 2021: MSI & Marsoft; as at: February 2017; [2] 2016 after consolidation, source: Clarkson; [3] History: Clarkson, forecast 2017: Alphaliner

Treasury & Markets – Largest contributor to earnings; funding above plan

Financial key figures 2016 – **Core Bank**

HSH NORDBANK

Treasury & Markets

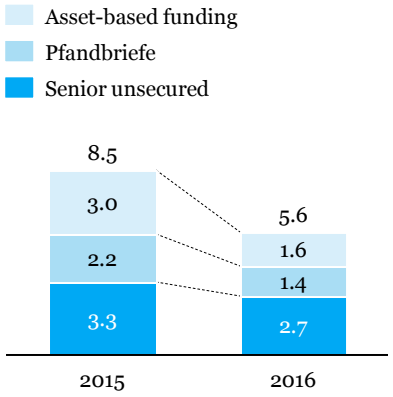
- Development and sales of products for risk and investment management
- Servicing of savings banks, banks and insurance companies
- Capital markets financing - arrangement of promissory note loans for Corporate Clients, municipalities and federal states
- Service provider for all business units
- Central operational management of liquidity and market price risks of the Bank's positions
- Refinancing of the Bank
- Implementation of measures to strengthen capital

Development in 2016 & strategic direction

- **Treasury & Markets** increased net income before taxes to EUR 298mn (PY: EUR 162mn), as a result of, inter alia, the effects of the sale of promissory note loans and securities
- International benchmark strategy expanded further: Two benchmark issues in 2016, Pfandbrief curve extended and international investor base expanded
- Funding above plan in 2016
- Deposit business in particular with institutional clients still shows a positive development
- Liquidity ratios well above regulatory requirements: LCR[1] 229%, NFRS[2] 111% and LiqV[3] of 1.92

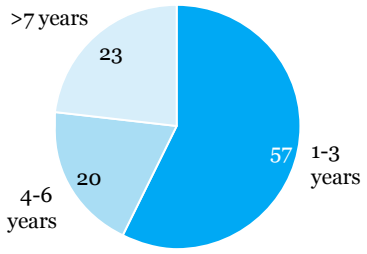
Long-term funding

in EUR billion



Senior unsecured and Pfandbrief issuance

(Excluding asset-based funding), in %



Overview of key figures

in EUR million

	2015	2016
EaD[4] (in EUR billion)	17.7	18.0
Total income	284	407
Net loan loss provisions[5]	0	0
Administrative expenses	-116	-98
Net income before taxes	162	298
CIR[6] (in %)	41	24

[1] Liquidity coverage ratio; [2] Net stable funding ratio; [3] Liquidity ratio as defined in the German Liquidity Regulation ; [4] Exposure at default, after portfolio reallocation in each case; [5] After guarantee effects, foreign exchange result and hedging effect of the credit derivative; [6] Cost-income ratio represents the ratio of administrative expenses to total income plus "other operating income"

Treasury & Markets – Refinancing further expanded

Financial key figures 2016 – Core Bank

HSH Nordbank

USD 200,000,000

2 years
NORTHERN DIABOLO
Asset-based funding

January 2016

HSH NORDBANK

HSH Nordbank

EUR 500,000,000

5 years
Public
Pfandbrief

February 2016

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HSH Nordbank

EUR 850,000,000

7 years
Mortgage
Pfandbrief

April/July 2016

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HSH Nordbank

USD 250,000,000

3 years
ENGINE
Asset-based funding

August 2016

HSH NORDBANK

- **2016 funding plan exceeded**
  - Diversified funding approach exceeds reduced funding requirements due to portfolio transfer
  - Maturity congruent refinancing
- **Access to funding via Savings Banks and Institutional Clients**
  - Retail funding proportion remains subdued due to low interest rate environment
- **Regular issuer of Pfandbrief benchmark bonds**
  - Two EUR 500mn benchmark issues (public sector Pfandbrief with a maturity of 5 years and mortgage Pfandbrief with a maturity of 7 years) were successfully placed in February and April, respectively, both of which attracted considerable international demand
  - In July, the mortgage Pfandbrief was successfully increased by EUR 350mn
- **Strengthening of primary USD long-term funding by ongoing use of the ABF platform**
  - A transaction based on infrastructure loans of USD 200mn was executed in the first half of the year
  - A transaction based on corporate loans of USD 250mn was concluded in Q3 2016

Treasury & Markets – Placement of promissory note loans

Financial key figures 2016 – **Core Bank**

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BETEILIGUNGS-MANAGEMENT

EUR 20,000,000

Promissory note loan
Sole arranger

2016 HSH NORDBANK

UNIVERSITÄTSKLINIKUM SCHLESWIG-HOLSTEIN

EUR 20,000,000

Registered bonds
Sole arranger

2016 HSH NORDBANK

CITY OF MÖNCHENGLADBACH

EUR 50,000,000

Promissory note loan
Sole arranger

2016 HSH NORDBANK

UNIVERSITÄTSKLINIKUM HAMBURG-EPPENDORF

EUR 20,300,000

Promissory note loan
Sole arranger

2016 HSH NORDBANK

EVS-ENTSORGUNGS-VERBAND SAAR

EUR 40,000,000

Promissory note loan
Sole arranger

2016 HSH NORDBANK

SCHWARZ GROUP (LIDL/KAUFLAND)

EUR 664,000,000
GBP 115,000,000

Promissory note loan
Joint lead manager

2016 HSH NORDBANK

POLIFILM GMBH

EUR 70,000,000

Promissory note loan
Joint lead arranger

2016 HSH NORDBANK

HAMBURGER STADT-ENTWÄSSERUNG AÖR

EUR 45,000,000

Registered bonds
Sole arranger

2016 HSH NORDBANK

CITY OF WUPPERTAL

EUR 50,000,000

Promissory note loan
Sole arranger

2016 HSH NORDBANK

MABANAFT GMBH & CO. KG

EUR 35,000,000

Promissory note loan
Sole arranger

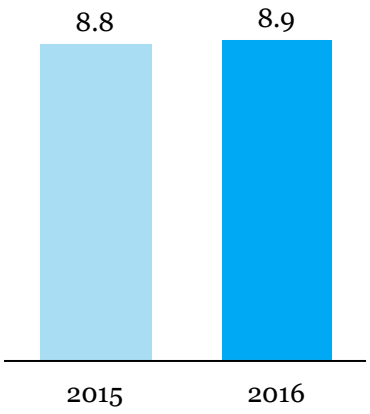
2016/17 HSH NORDBANK

Core Bank increased new business to EUR 8.9bn in a challenging environment

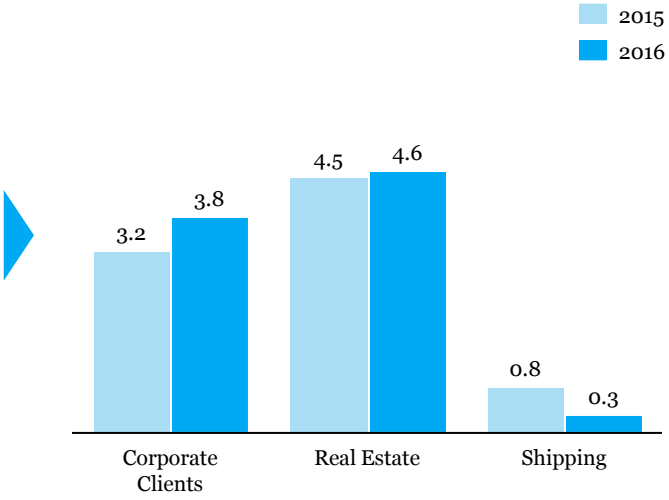
Financial key figures 2016 – Core Bank

HSH NORDBANK

New business
in EUR billion

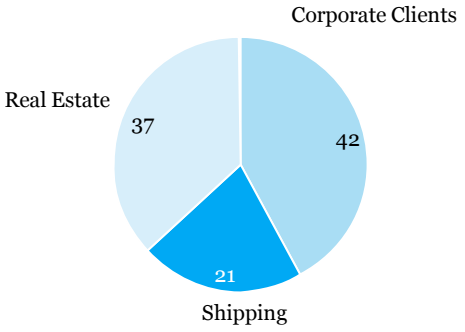


Breakdown of new business[1]
in EUR billion



Breakdown of client business
EaD (after portfolio reallocation)
in %

Total: EUR 33.8bn EaD[2]



- EUR 8.9bn in new business shows positive development in a partially very difficult market environment. New business forecast for H1 2016 and the previous year (EUR 8.8bn) exceeded slightly, in particular exceeded significantly in Corporate Clients
- New business in Real Estate on par with the very good prior-year level, as a result new business planning exceeded by far
- New business development in Shipping unsatisfactory due to the extremely challenging market conditions and the targeted control of risk profile
- Interest margins stabilised in an environment of intense competition in the 4th quarter, but are still below the previous year's level
- Payout ratio was increased in the course of the financial year, remains stable at 57% for the year as a whole
- Growing pipeline indicates an increase in new business activities

[1] New business in 2015 and 2016 in each case plus EUR 0.2bn Treasury & Markets; [2] Exposure at default

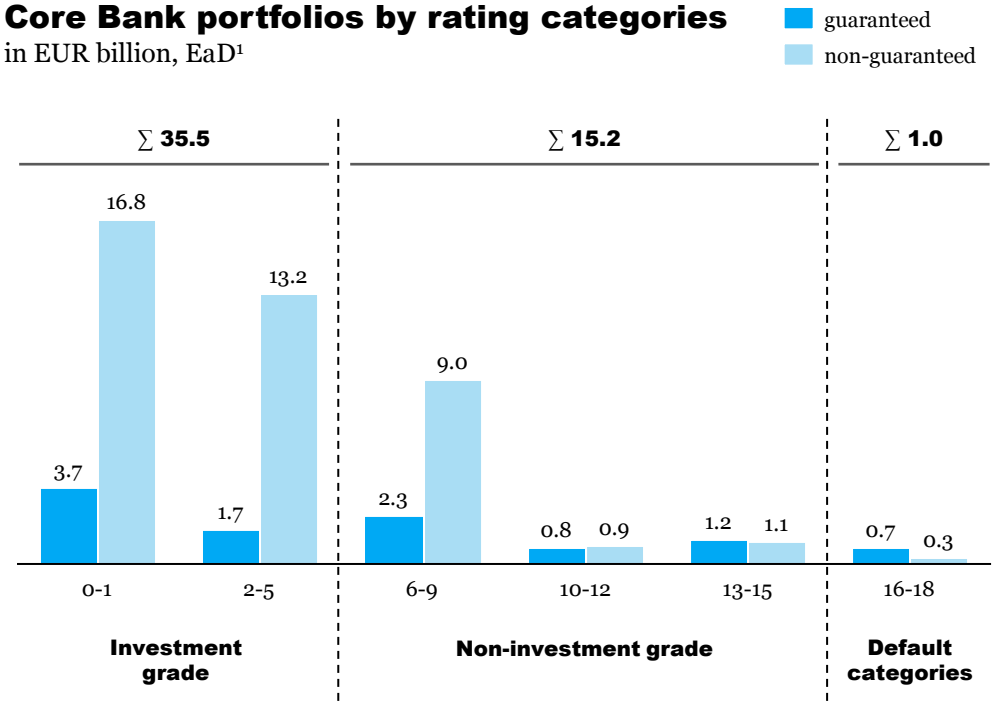
Core Bank with solid portfolio quality and good NPE ratio of 1.9%

Financial key figures 2016 – Core Bank

HSH NORDBANK

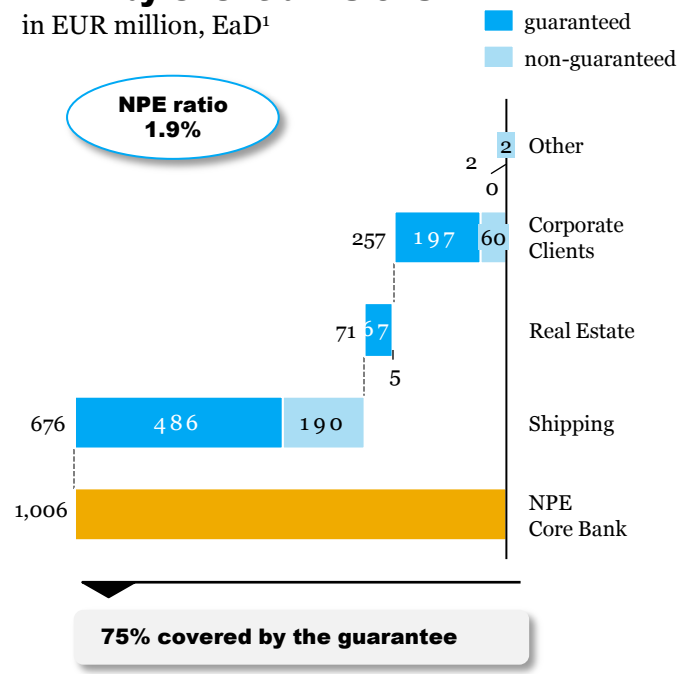
Core Bank portfolios by rating categories

in EUR billion, EaD[1]



NPE[2] by client divisions

in EUR million, EaD[1]



- Core Bank portfolio of EUR 51.7bn EUR in total (after portfolio reallocation), of which EUR 35.5bn (69%) in investment grade and EUR 46.8bn (90%) in rating categories 0 to 9
- NPE volume of EUR 1bn corresponds to an NPE ratio of 1.9%
- EUR 19.7bn new business since 2011[3], thereof currently EUR 92.5mn NPE[2] corresponds to a new business NPE ratio of 0.5%
- Solid coverage ratio of 56% due to loan loss provisions of EUR 0.57bn

[1] Exposure at default; [2] Non-performing exposure: Default categories 16-18; [3] Cumulative on-balance sheet new business since 2011 and currently still in Core Bank portfolio, exposure at default

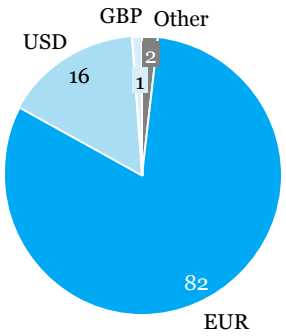
Income statement analysis highlights the Core Bank's profitability

Financial key figures 2016 – Core Bank

HSH NORDBANK

Portfolio by currency

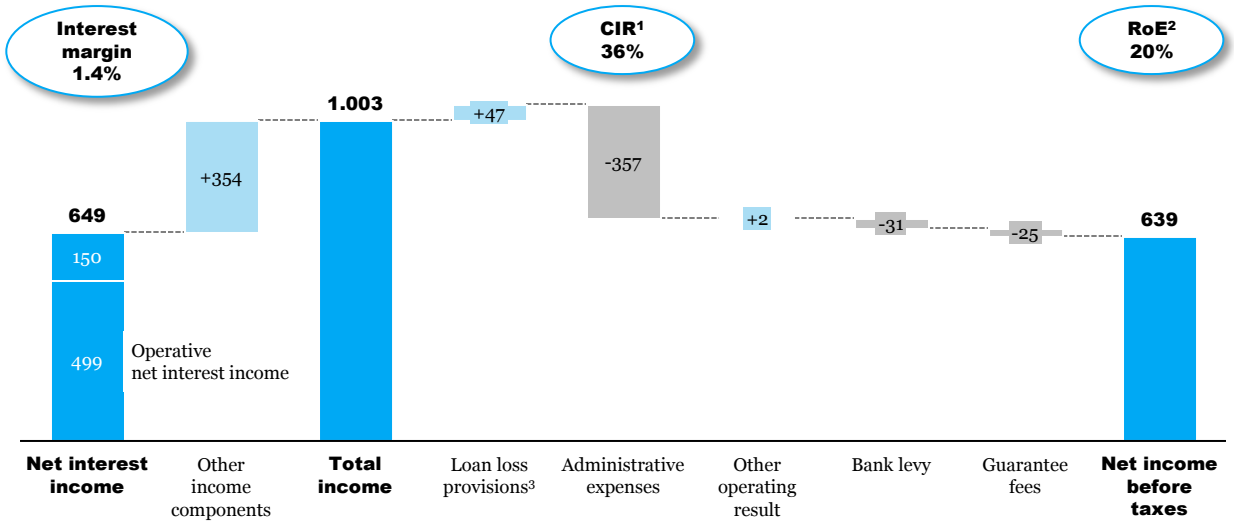
in %



- Total Core Bank portfolio of EUR 51.7bn EaD
- Portfolio largely (82%) denominated in EUR
- A large part of the USD exposure includes Shipping loans

Income statement – Core Bank

in EUR million



- Operating net interest income in relation to receivables volume of EUR 35.8bn gives Core Bank a solid interest margin of 1.4%
- Net trading income of EUR 186mn includes operating income in client business and valuation effects of customer derivatives and assets measured at fair value
- Loan loss provisions before guarantee of EUR 12mn confirm the good portfolio quality
- CIR of 36% confirms the progress made in implementing the cost reduction programme
- RoE of 20% highlights the adequate profitability of the business model

[1] The cost-income ratio represents the ratio of administrative expenses to total income, plus "other operating result"; [2] Return on Equity (RoE) is calculated as the ratio of net income before taxes to average reported equity; [3] Incl. hedging effect of the guarantee

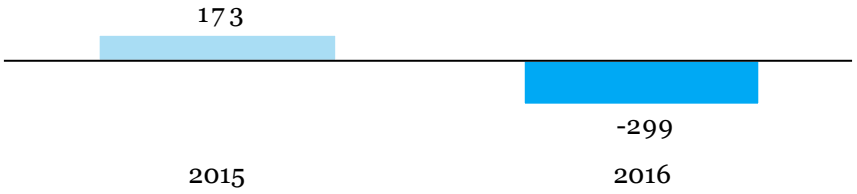
Non-Core Bank comprises impaired and non-strategic legacy burdens

Financial key figures 2016 – Non-Core Bank

HSH NORDBANK

Net income before taxes

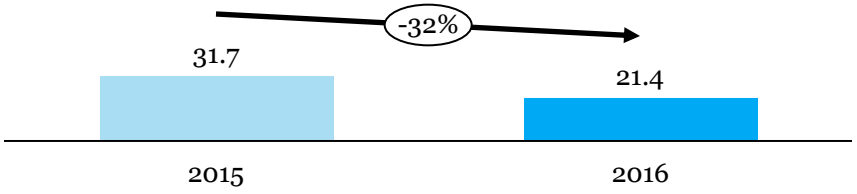
in EUR million



- **Net income before taxes** of EUR -299mn highly negative as expected (PY: EUR 173mn) due to continued portfolio reduction and the setting of loans to a non-accrual basis (loan loss provisions)
- Loan loss provisions after guarantee and hedging effect of the credit derivative of EUR 106mn (PY: EUR 436mn)

Asset reduction

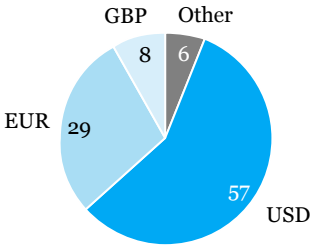
in EUR billion, EaD[1]



- Active measures (incl. federal state portfolio transaction) in order to reduce high-risk legacy assets denominated in USD are supporting the wind-down process based on regular and pre-mature repayments

Portfolio by currency

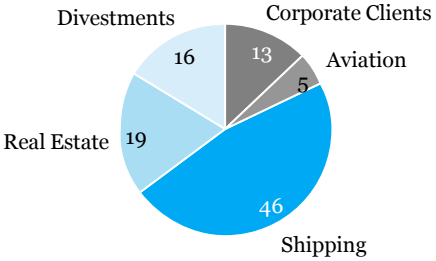
in %



- Portfolio primarily (57%) denominated in USD
- A large part of the USD exposure includes Shipping loans (average age: 7.11; number of ships: 590)

Portfolio by asset class

in %



- Shipping dominates the portfolio with 46% or EUR 9.9bn
- Real Estate represents the second-largest share with 19%/ EUR 4.1bn

[1] Exposure at default

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Agenda

1. Change in ownership
2. Financial key figures 2016 – Core Bank / Non-Core Bank
3. Financial key figures 2016 – Group
4. Outlook for 2017
5. Appendix

Group net result before taxes much higher than expected

Financial key figures 2016 – Group

HSH NORDBANK

in EUR million, IFRS	Core Bank		Non-Core Bank		Other and Consolidation		Group	
	2015	2016	2015	2016	2015	2016	2015	2016
Net interest income	509	649	285	15	238	-57	1,032	607
Net commission income	92	83	29	20	-7	-16	114	87
Result from hedging	-	-	-	-	12	-4	12	-4
Net trading income	232	186	53	-53	-201	-45	84	88
Net income from financial investments[1]	17	85	40	54	-3	4	54	143
Total income	**850**	**1,003**	**407**	**36**	**39**	**-118**	**1,296**	**921**
Loan loss provisions in the lending business[2]	-168	47	436	106	36	3	304	156
Administrative expenses	-395	-357	-253	-299	14	22	-634	-634
Other operating result	-19	2	33	62	24	-6	38	58
Expenses for bank levy and deposit guarantee fund	-24	-31	-17	-15	-9	-10	-50	-56
Net income before restructuring and privatisation	**244**	**664**	**606**	**-110**	**104**	**-109**	**954**	**445**
Net income from restructuring and privatisation	-	-	-	-	-31	-110	-31	-110
Expenses for government guarantees[3]	-40	-25	-433	-189	-	-	-473	-214
Net income before taxes	**204**	**639**	**173**	**-299**	**73**	**-219**	**450**	**121**
Income tax expenses							-352	-52
Net income after taxes							**98**	**69**

[1] Incl. result from the financial investments accounted for under the equity method; [2] Net loan loss provisions after effects relating to the guarantee, foreign exchange result and hedging effect of the credit derivative; [3] Base premium and subsequent payments

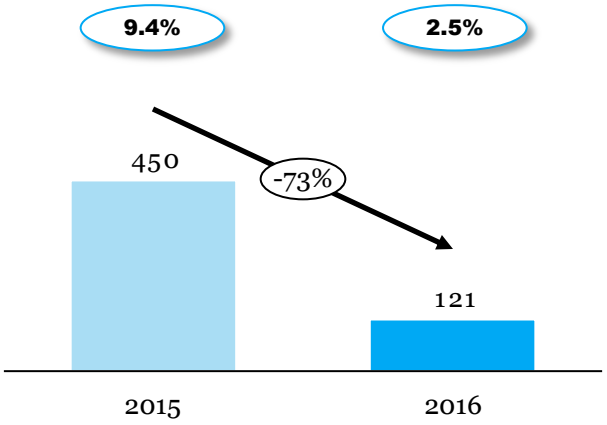
Core Bank makes decisive contribution to the positive Group net result before taxes

Financial key figures 2016 – **Group**

HSH NORDBANK

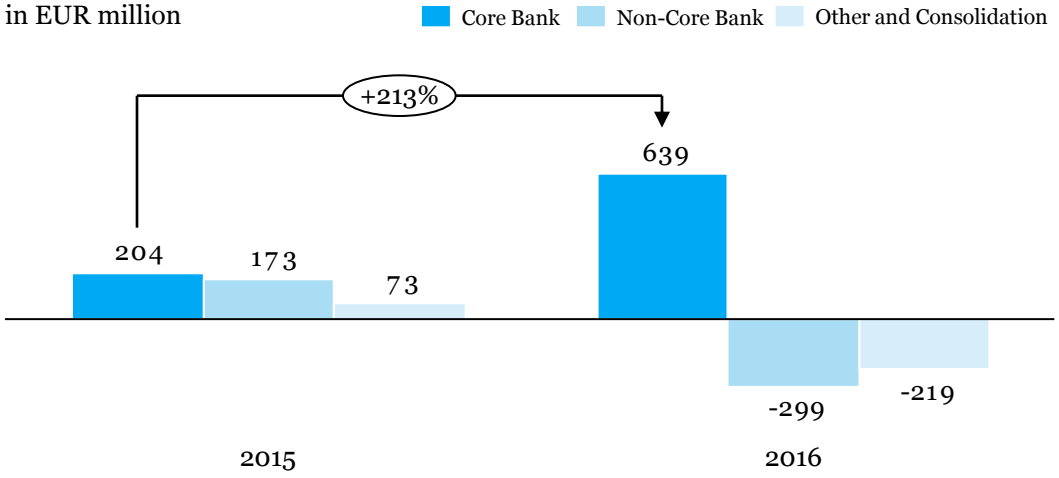
Net income before taxes / RoE

in EUR million, RoE



Distribution of net income before taxes

in EUR million



- **Group generates net income before taxes of EUR 121mn** (PY: EUR 450mn)
  - Total income of EUR 921mn with net interest income of EUR 607mn, including the realisation of unrealised gains through the sale of promissory note loans and securities, which were largely recognised in the second quarter
- Net income before taxes of the **Core Bank** of EUR 639mn is significantly above plan and PY level (EUR 204mn). This was partly due to the overall satisfactory operative performance of the segments; furthermore, net income also benefited from lower loan loss provisions due to the good portfolio quality
- As expected, the **Non-Core Bank** recorded a negative net income before taxes of EUR -299mn due to the continued reduction in the portfolio and setting of loans to a non-accrual basis as part of the recognition of loan loss provisions
- **Other and Consolidation** includes staff functions, Total Bank positions and the result from restructuring of EUR -110mn, which includes burdens for the planned staff reduction and privatisation

[1] Return on equity (RoE) is the ratio of net income before taxes to average reported equity capital

CET1 ratio increases to 14.1% due to positive net income 2016 and significant reduction in RWA

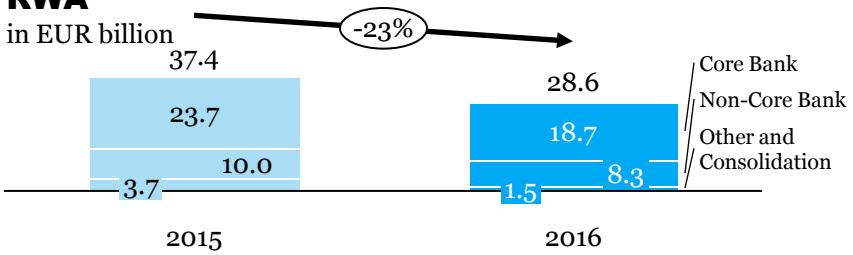
Financial key figures 2016 – Group

HSH NORDBANK

New business
in EUR billion

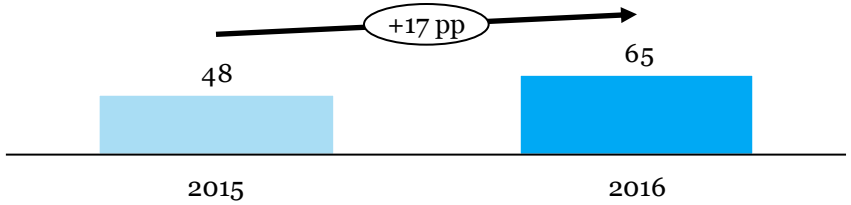
- EUR 8.9bn shows a good development in **new business** (PY: EUR 8.8bn) whilst complying with stringent risk requirements and stable interest margins
- Payout ratio remains stable at 57%

RWA[1]
in EUR billion



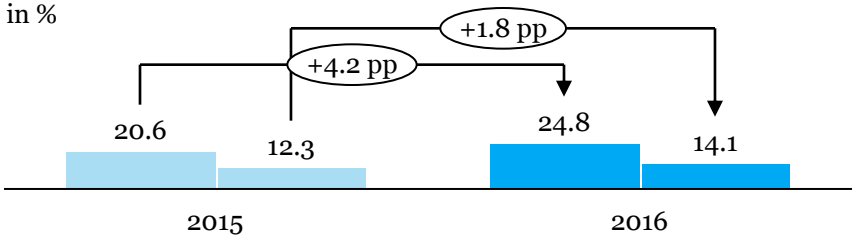
- **RWA[1]** reduced significantly to EUR 28.6bn due to the federal state transaction, the securitisation of portfolio risks and the continued active winding-down of legacy burdens

CIR[2]
in %



- **CIR[2]** of 65% increased compared to the previous year
- Unplanned special depreciation allowances of EUR -66mn[3] are offset by savings from the ongoing cost reduction programme

Overall ratio / CET1 ratio (phase-in)
in %



- **Core Tier 1 capital ratios** 14.1% phase-in and 13.4% fully loaded are well above the SREP requirements[4]
- Improvement mainly due to solid net income for the year, the marked RWA[1] reduction and adjustments to the regulatory treatment of the senior tranche of the guarantee

[1] Risk -weighted assets after guarantee; [2] Cost-income ratio represents the ratio of administrative expenses to total income plus "other operating income"; [3] Revaluation of tangible assets at subsidiaries; [4] See also page 43

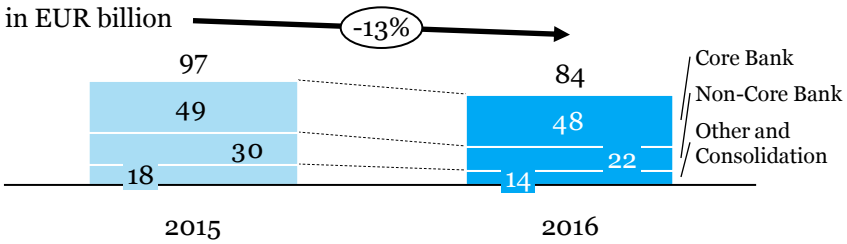
Consistent deleveraging and portfolio transfer improve balance sheet structure

Financial key figures 2016 – Group

HSH NORDBANK

Total assets[1]

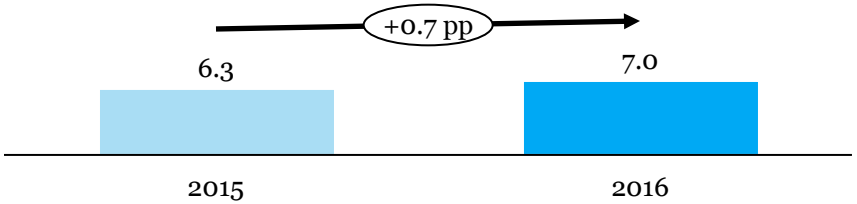
in EUR billion



- **Total assets** decreased in particular due to the transfer of the federal state portfolio and the ongoing reduction of the Non-Core Bank portfolio
- Portfolio reallocation and new segment structure in order to clearly separate the core business from the legacy portfolio

Leverage ratio

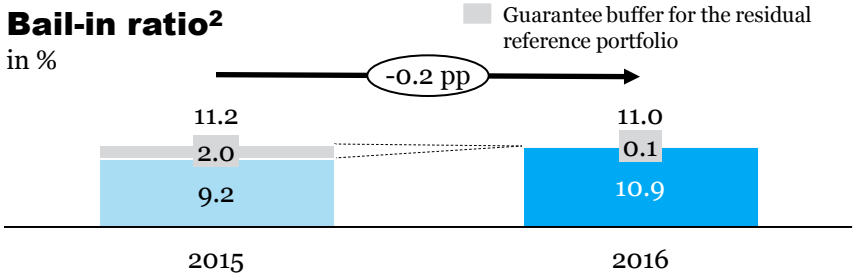
in %



- **Leverage Ratio** improved to a very solid 7.0%
- Increase primarily attributable to the noticeable reduction in the leverage exposure to EUR 77.0bn (31 Dec. 2015: EUR 97.6bn) due to changes in calculation system in line with CRR[3] and the ongoing reduction in total assets

Bail-in ratio[2]

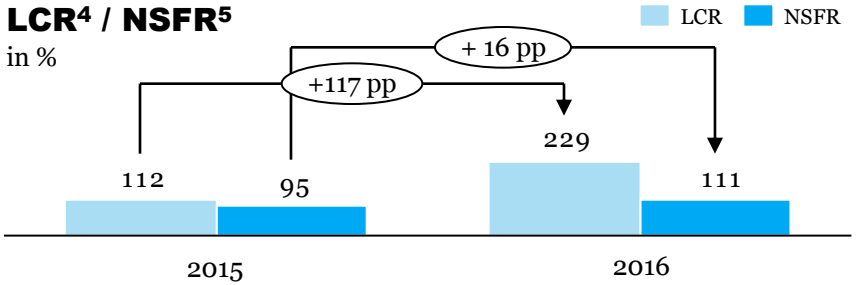
in %



- **Bail-in ratio** of around 10.9% (excl. guarantee and senior unsecured) well above the bail-in threshold of 8%

LCR[4] / NSFR[5]

in %



- **Liquidity position** extremely strong after the transfer of the federal state portfolio: LCR[4] 229% and NSFR[5] 111%
- Liquidity ratio LiqV[6] of 1.92 (31 Dec 2015: 1.89)
- Refinancing above plan in 2016

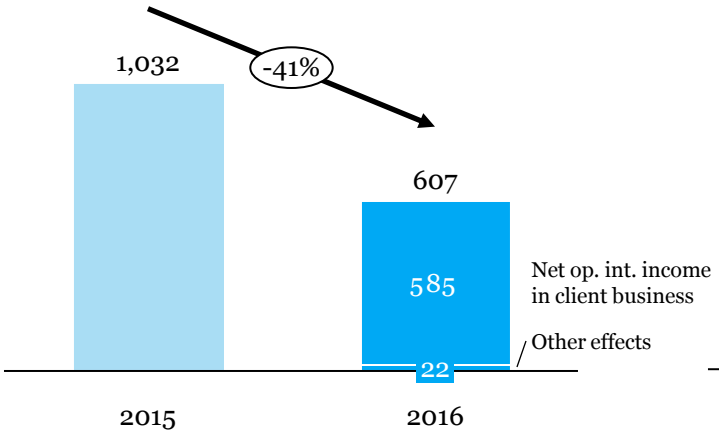
[1] Segment assets; [2] Pro-forma; [3] Capital Requirements Regulation; [4] Liquidity coverage ratio; [5] Net stable funding ratio; [6] Liquidity ratio as defined in the German Liquidity Regulation

Net interest income from Core Bank's operating business above plan

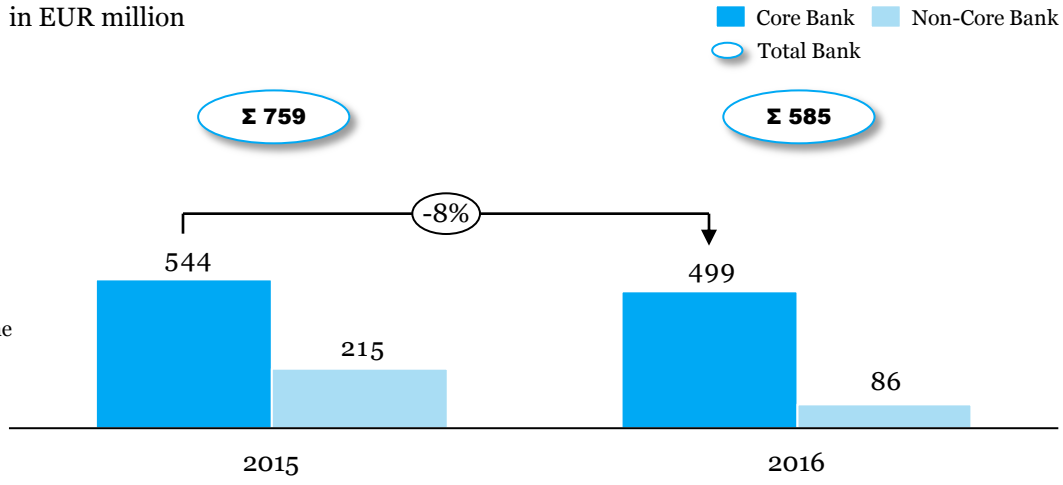
Financial key figures 2016 – **Group**

HSH NORDBANK

Net interest income
in EUR million



Net operating interest income generated by client business
in EUR million



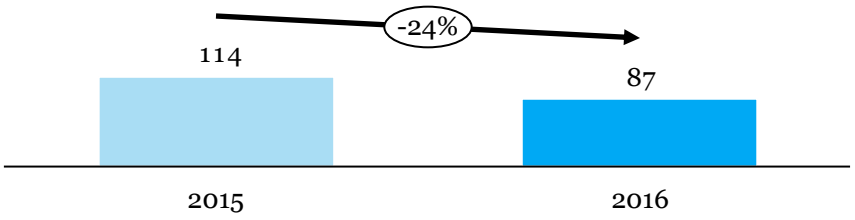
- **Net interest income in the Group** of EUR 607mn due to interest-bearing receivables volume of EUR 37bn that was in line with the plan, but at the same time was reduced considerably (PY: EUR 46bn)
- **Other effects** of EUR 22mn resulting from, inter alia, sales of promissory note loans and securities as well as from hedge accounting
- Core Bank's **net operating interest income** of EUR 499mn from client business decreasing in comparison to the previous year (EUR 544mn), but above plan
- **Interest-bearing receivables volume** in the **Non-Core Bank** has decreased sharply from EUR 14bn in the previous year to EUR 7bn (-53%), additionally, net operating interest income of Non-Core Bank decreased from EUR 215mn to EUR 86mn

Net commission income primarily driven by the Core Bank

Financial key figures 2016 – Group

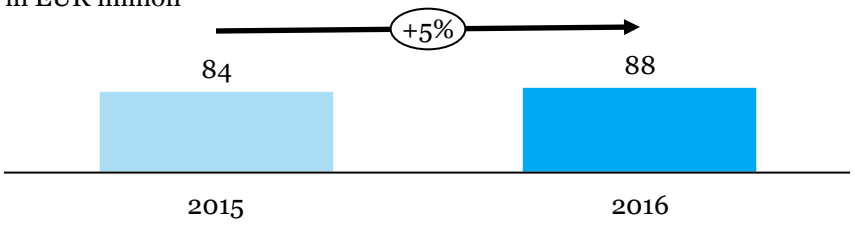
HSH NORDBANK

Net commission income
in EUR million



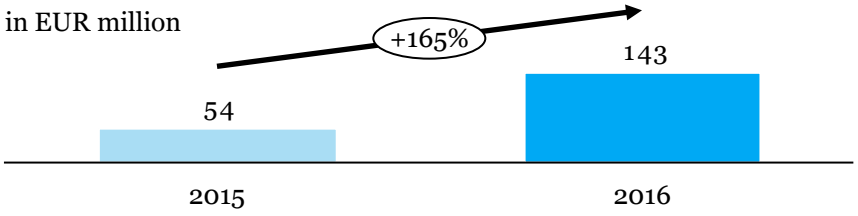
- **Net commission income** decreased of EUR 87mn year-on-year
- 95% of net commission income (EUR 83mn) generated by the Core Bank
- Decreasing loan commissions from restructuring in the Non-Core Bank as part of the significant portfolio reduction

Net trading income[1]
in EUR million



- Operating successes in the client business and assets measured at fair value have a positive impact on **net trading income**
- Valuation effects in the derivatives unit and the noticeable expansion of CDS spreads in the credit investment portfolio have the opposite effect
- In line with the list of conditions and commitments associated with the EU decision of 20 September 2011, the Bank is exclusively engaged in client trading, but not in proprietary trading

Net income from financial investments
in EUR million



- **Net income from financial investments** benefits from securities sales and write-ups on HETA, while write-downs of equity holdings in non-affiliated companies had a negative impact

[1] Excluding hedge result

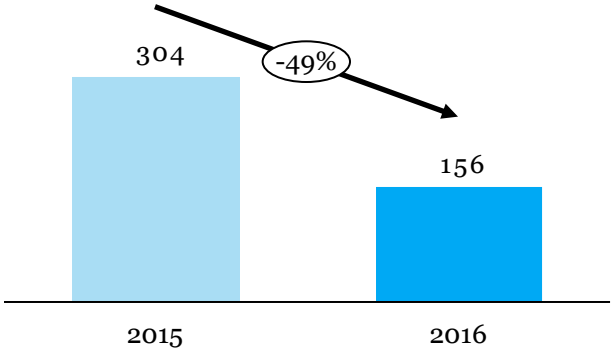
LLP remain high due to market development in shipping and the legacy portfolio in the Non-Core Bank

Financial key figures 2016 – **Group**

HSH NORDBANK

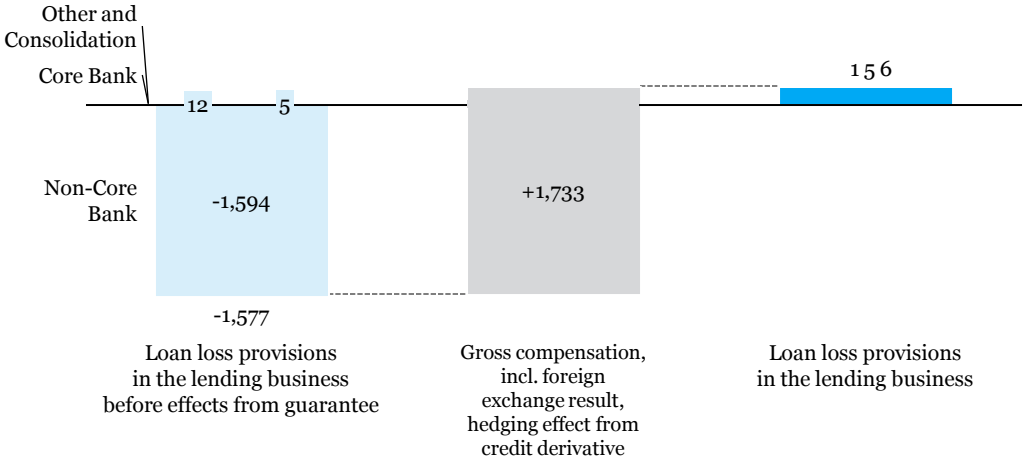
Loan loss provisions in the lending business[1]

in EUR million



Components of loan loss provisions

in EUR million



- **Loan loss provisions** before guarantee effects and foreign exchange result of EUR -1,577mn (PY: EUR -3,020mn), of which EUR 12mn are attributable to the Core Bank, EUR -1,594mn to the Non-Core Bank and EUR 5mn to Other and Consolidation/EUR -1,510mn (96%) to the guaranteed and EUR -67mn (4%) to the non-guaranteed portfolio
- **Effects from the guarantee** due to gross compensation of EUR 1,733mn, incl. foreign exchange result, hedging effect of the credit derivative and invoicing of losses in the second quarter, which contains not only the losses incurred but also positive effects from loss invoicing of EUR 430mn (mainly compensation for interest payments lost in the past)
- **Income statement disclosure** after guarantee effects of EUR 156mn (PY: EUR 304mn).

[1] After effects relating to the guarantee, foreign exchange result and hedging effect of credit derivative, i.e. income statement item hedging effect of the credit derivative of EUR -475mn, has been recognised in the loan loss provisions in the lending business of EUR 156mn

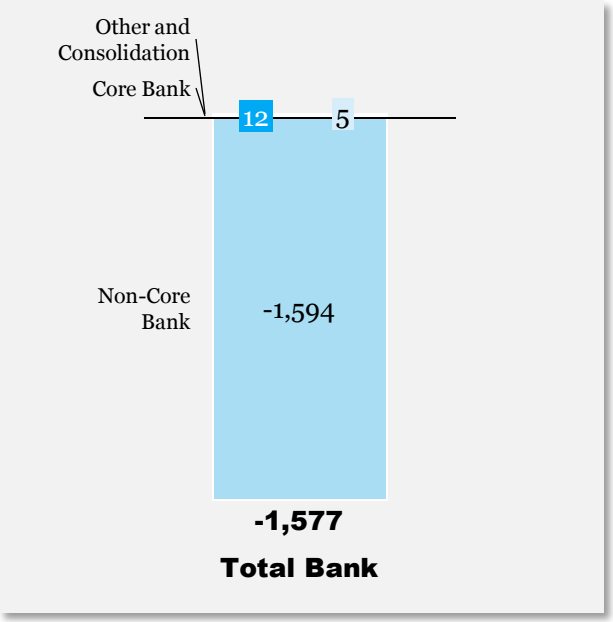
High level of loan loss provisions in the Non-Core Bank's Shipping portfolio

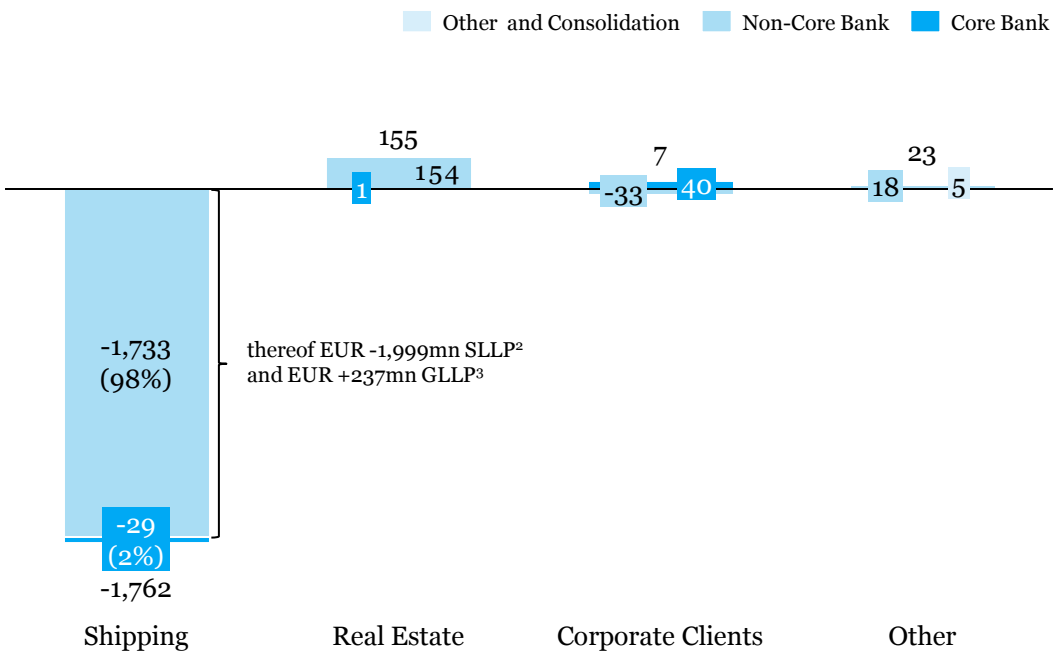
Financial key figures 2016 – Group

HSH NORDBANK

Loan loss provisions[1] by business units

in EUR million





- Loan loss provisions of EUR -1,577mn before foreign exchange effects and compensation; mainly driven by legacy burdens from shipping loans in the Non-Core Bank in the amount of EUR -1,733mn
- Reversals of loan loss provisions in the Real Estate division in the amount of EUR 155mn, Corporate Clients in the amount of EUR 7mn and Other in the amount of EUR 23mn (mainly Aviation)
- A further considerable need for loan loss provisions is expected in 2017, particularly in the guaranteed legacy portfolios. As a result, in the first half of 2017 the full balance sheet guarantee utilisation is expected

[1] Before effects relating to the guarantee, foreign exchange result and hedging effect of the credit derivative; [2] Specific loan loss provisions; [3] General loan loss provisions

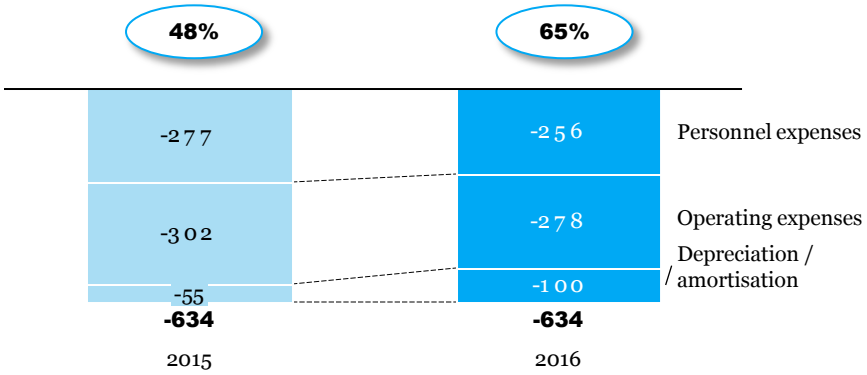
Unscheduled depreciation offsets savings made in administrative expenses

Financial key figures 2016 – Group

HSH NORDBANK

Administrative expenses

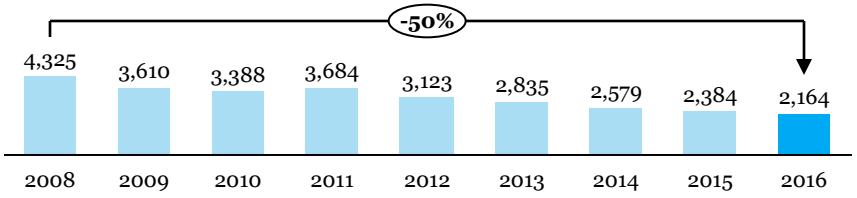
In EUR million, CIR[1]



- **Personnel expenses** decreased from EUR -277mn (PY) to EUR -256mn (-8%) due to further staff reduction
- **Operating expenses** reduced by 8% from EUR -302mn (PY) to EUR -278mn, savings achieved through reduction in building costs but offset by still high expenses associated with the implementation of regulatory and accounting requirements
- **Depreciation/amortisation** increased to a greater extent than planned to EUR -100mn (PY: EUR -55mn), in particular due to unscheduled depreciations of EUR -66mn from revaluation of tangible assets (in particular aircraft in consolidated companies)
- **CIR[1]** of 65% (PY: 48%)

Employees

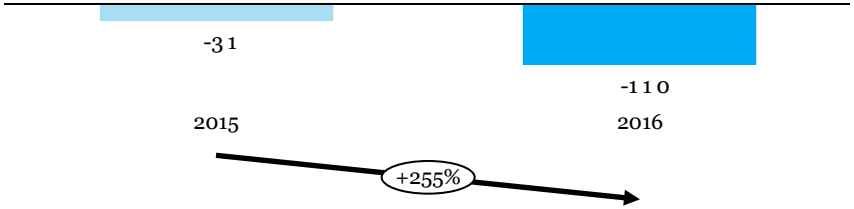
Number of full time employees



- HR strategy of a purely socially acceptable staff reduction
- HR work is focusing on further professional development measures for employees and the further expansion of measures to promote talents

Net income from restructuring and privatisation

in EUR million



- **Net income from restructuring** burdened by an increase in restructuring and privatisation expenses in connection with planned HR measures and preparations for the privatisation process

[1] The cost-income ratio represents the ratio of administrative expenses to total income, plus "other operating result"

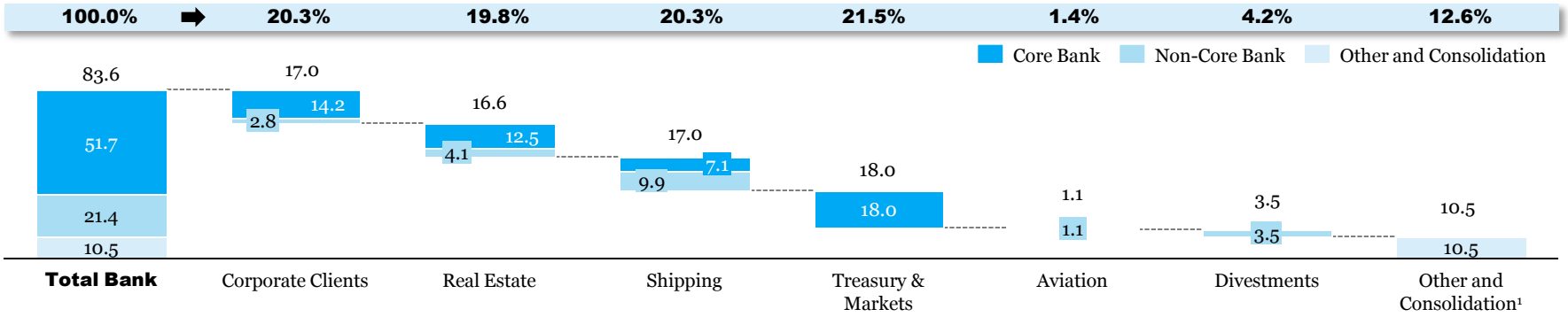
Guarantee covers main risks: 73% of the Shipping and 30% of the Real Estate exposure

Financial key figures 2016 - **Group**

HSH NORDBANK

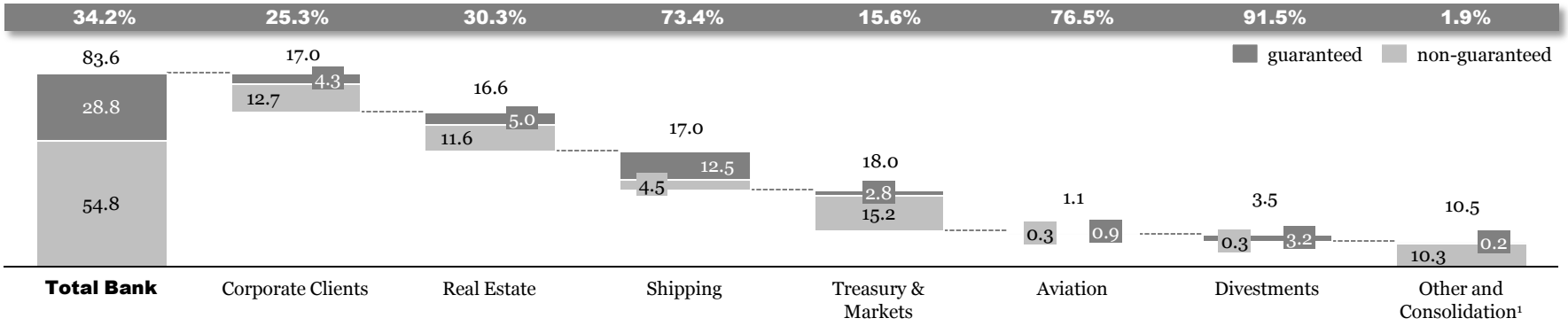
Distribution of exposure at default (EaD) within the Group

in % /in EUR billion, EaD



Risk coverage by the guarantee²

in %/in EUR billion, EaD



¹ Incl. liquidity reserve; ² Percentage risk coverage provided by the guarantee in relation to total EaD of the respective business unit

Core Bank with good risk profile, Non-Core Bank with majority of legacies

Financial key figures 2016 – Group

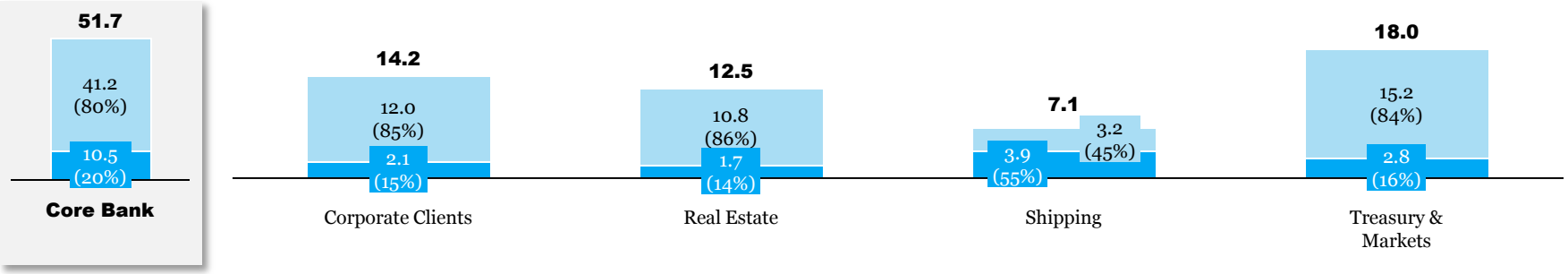
HSH NORDBANK

Core Bank

Total loan loss provisions[1], in EUR billion

0.57 ➡ 0.06 | 0.04 | 0.46 | 0.01

EaD distribution, in EUR billion

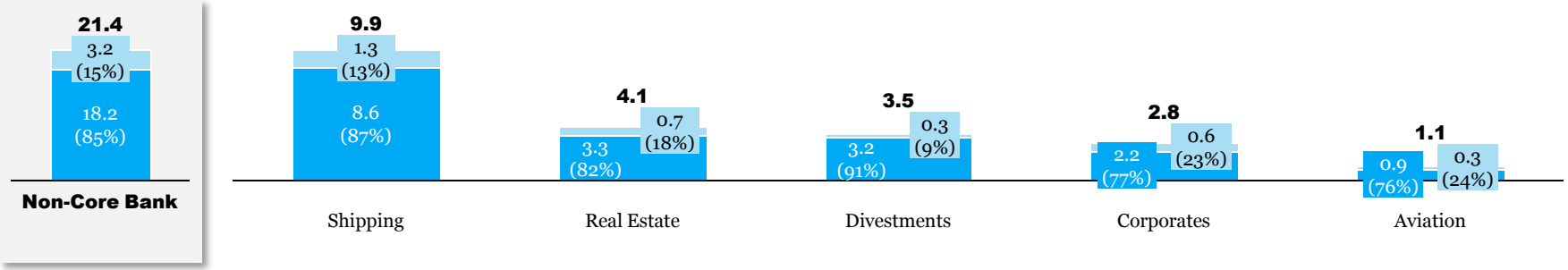


Non-Core Bank

Total loan loss provisions[1], in EUR billion

6.49 ➡ 4.91 | 0.62 | 0.04 | 0.70 | 0.22

EaD distribution, in EUR billion



[1] Other and Consolidation: EUR 0.02bn; differences due to rounding possible

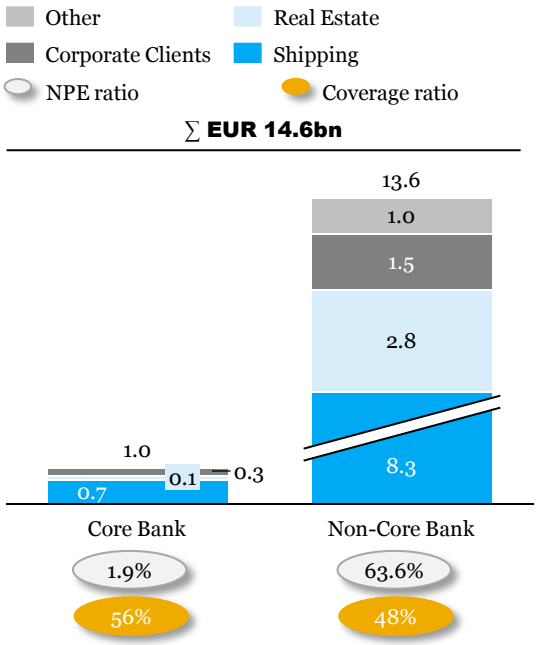
Group NPE[1] comprehensively covered, NPE ratio of 0.5% for new business

Financial key figures 2016 – Group

HSH NORDBANK

NPE[1] by asset class

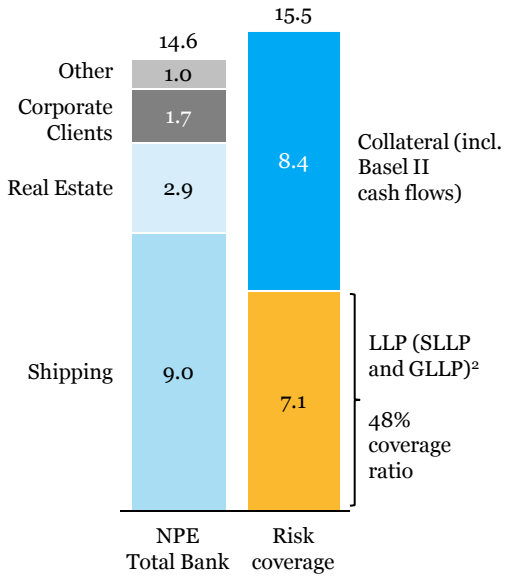
in EUR billion



- Total EaD of EUR 83.6bn with NPE[1] of EUR 14.6bn corresponds to a NPE ratio for the Group of 17.5%
- NPE ratio in the Core Bank of 1.9%
- NPE legacy burdens covered by guarantee of 87%

Risk coverage

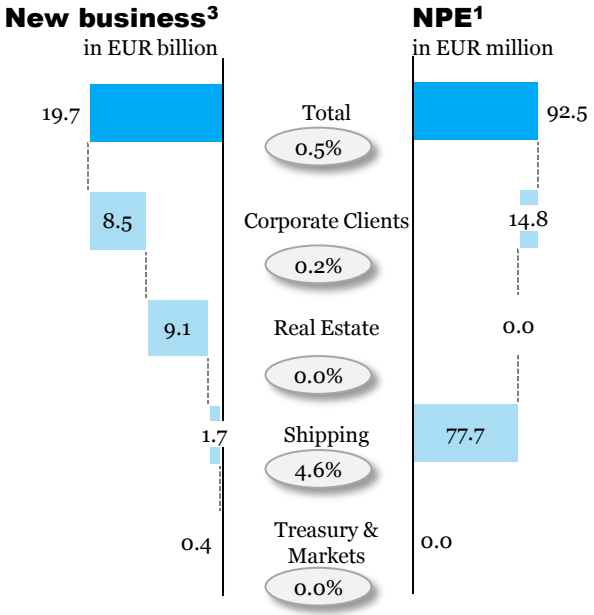
in EUR billion



- Shipping NPE of EUR 9.0bn (61%), Real Estate of EUR 2.9bn (20%)
- Total Bank NPE[1] with solid coverage ratio of 48%, 60% in Shipping
- Total coverage > 100% including collateral

New business & NPE[1] since 2011[3]

NPE ratio in new business



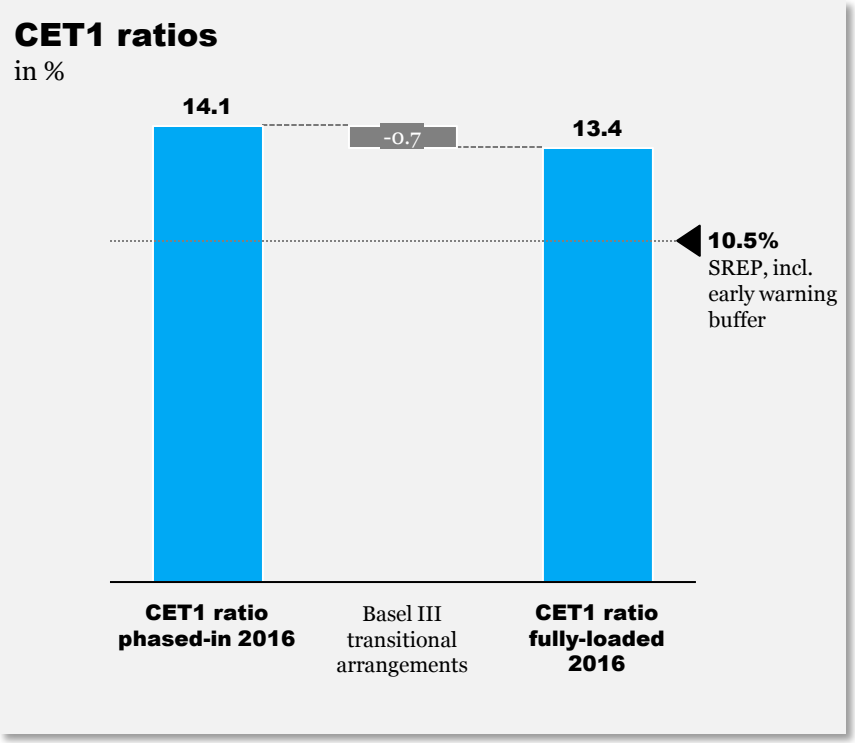
- New business of EUR 19.7bn since 2011[3]
- NPE ratio in new business 0.5%
- Shipping main driver with an NPE ratio of 4.6% in new business

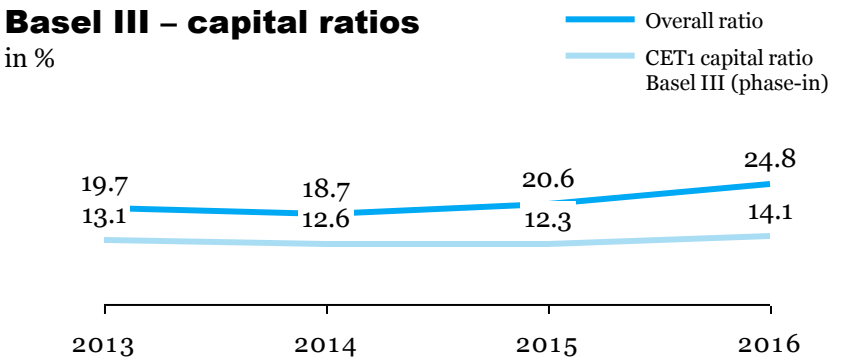
[1] Non-performing exposure, default categories 16 to 18; [2] Loan loss provisions before compensation, incl. SLLP and GLLP; [3] Cumulative on-balance sheet new business since 2011 and currently still in Core Bank portfolio, exposure at default

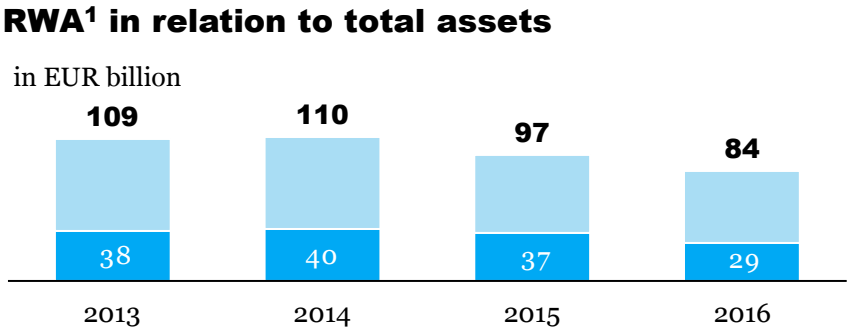
Very solid capital ratios due to retention of earnings and reduction in RWA

Financial key figures 2016 – Group

HSH NORDBANK







- **CET1 ratio "phase-in"** characterised by positive net income for the year, marked reduction in RWA thanks to the federal state transaction and securitisation of portfolio risks, as well as by adjustments to the regulatory treatment of the senior tranche of the second loss guarantee
- **SREP requirements in 2017: Regulatory early warning threshold** (P2G[2]) of **10.5%** (phase-in), consisting of an SREP requirement of 8.9% (P2R[3]) and early warning buffer of 1.6%

[1] Risk weighted assets; [2] Pillar 2 Guidance; [3] Pillar 2 Requirement

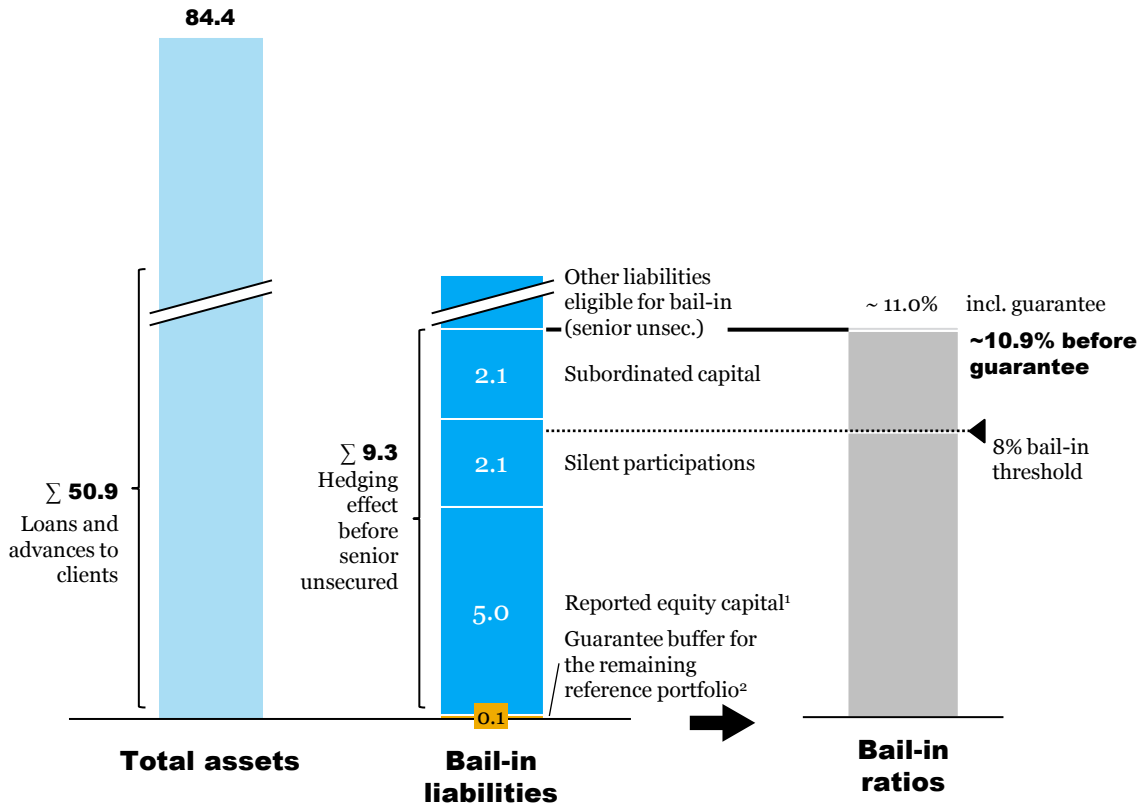
Solid bail-in ratio of 10.9%, excluding guarantee and senior unsecured liabilities

Financial key figures 2016 – Group

HSH NORDBANK

Bail-in ratios

IFRS, in EUR billion



Comments

- **Bail-in ratio of around 10.9%** based on reported equity capital[1], silent participations and subordinated capital (excl. guarantee)
- Guarantee ranks before regulatory capital in the event of losses from the guaranteed portfolio
- The EaD in the reference portfolio covered by the guarantee accounts for approximately 34% of total EaD (EUR 83.6bn)
- In arithmetical terms, the guarantee, as an equity substitute, has a buffer impact of approx. EUR 1.0bn or ~0.1 percentage points
- Overall, this results in an imputed bail-in ratio of up to ~11.0% after taking the guarantee into account
- The bail-in ratio is also expected to be significantly > 8% in the future
- The calculation of the bail-in ratio (excl. guarantee) is based on the BRRD definition of a threshold (8%) for a drawdown on the single resolution fund

[1] Reported equity capital adjusted by "other comprehensive income" line items (OCI); [2] EUR 9.9bn of the EUR 10bn guarantee amount already applied in the income statement as compensation/hedging effect of credit derivative second loss guarantee, securing the EaD in the reference portfolio of around EUR 29bn; Note: This presentation includes assessments and forecasts based on numerous assumptions and subjective valuations both of HSH Nordbank AG and other sources and only represents a non-binding view

Key facts

Financial key figures 2016 – Group

- New composition of Management Board and streamlined organisational structure
- Significant reduction in RWA[1] and considerable winding-down of NPE[2] legacy burdens
- Clear separation of core business from legacy portfolio, optimised reporting structure
- Rating stabilised: Moody's and Fitch confirm rating position
- Sales process officially started, first part of the market portfolio sold

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- Group net result before taxes of EUR 121mn (PY: EUR 450mn)
- Core Bank pre-tax income of EUR 639mn exceeds expectations (PY: EUR 204mn)
- New business of EUR 8.9bn (PY: EUR 8.8bn) shows positive development
- NPE ratio in the Core Bank of 1.9% and in new business[3] of 0.5%
- CET1 ratios improved: phase-in 14.1%, fully loaded 13.4%
- Increase in liquidity ratios: LCR[4] 229%, NFSR[5] 111%

[1] Risk weighted assets; [2] Non-performing exposure, default categories 16 to 18; [3] Cumulative on-balance sheet new business since 2011 and still in the portfolio; [4] Liquidity coverage ratio; [5] Net stable funding ratio

HSH NORDBANK

Agenda

1. Change in ownership
2. Financial key figures 2016 – Core Bank / Non-Core Bank
3. Financial key figures 2016 – Group
4. Outlook for 2017
5. Appendix

2017 – Group result before taxes expected on par with the previous year

Outlook for 2017

HSH NORDBANK

Outlook

- In view of the milestones achieved in the **preparation and implementation of the EU decision** and the overall satisfactory economic development following the end of the last financial year, HSH Nordbank remains confident that a **good foundation has been laid for a successful privatisation process**. In order to achieve this, the Bank will:
  - continue to provide its owners with intensive support during the sales process
  - systematically drive forward with its client business in 2017 on the basis of the operating progress achieved
  - implement the ongoing strategic and operational optimisation measures to secure the Bank's sustainable competitive position in a targeted manner
  - aim to rapidly wind-down the legacy burdens consolidated within the Non-Core Bank, also extending beyond the adjustments planned as part of the market transactions concluded at the beginning of 2017
- Overall, the **basis for a sustainable alignment** of the Bank is further strengthened and a business model created for HSH Nordbank which, not the least, should convince clients, employees and investors and facilitate a successful change in ownership
- **The main risks regarding future developments primarily result from:**
  - A sales process not progressing in line with the plan
  - Ongoing very difficult market conditions in the shipping industry, the future development of charter rates and ship values and, within this context, the assessment of the long-term development of loan loss provisions
  - A low interest rate environment
  - Volatility in the financial and currency markets (particularly US dollar)
  - Changes in the assessments by the rating agencies
  - Increasing requirements imposed by the European Banking Authority
- For **2017**[1], the Bank expects to achieve **a positive net income before taxes** at Group level **on par with the previous year** and **a return on equity that slightly exceeds the previous year**. The environment will remain challenging

[1] The assumption of the Bank as a going concern for accounting and valuation purposes is based on assumptions set out in the Annual Report as at 31 Dec. 2016

HSH NORDBANK

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1. Change in ownership
2. Financial key figures 2016 – Core Bank / Non-Core Bank
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5. Appendix

Guarantee of the federal states of Hamburg and Schleswig-Holstein reduces RWA and strengthens capital position

Guarantee

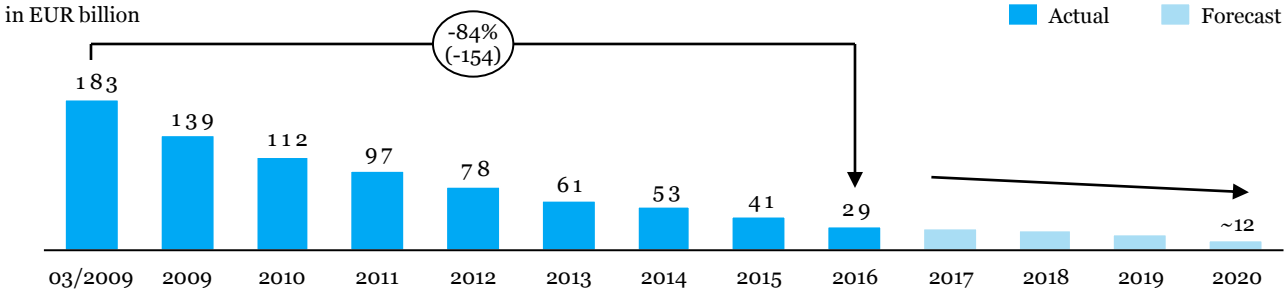
HSH NORDBANK

Guarantee facility

- "HSH Finanzfonds AöR", which was established by the federal states of **Hamburg and Schleswig-Holstein**, covers the **legacy burdens** (as at: 31 March 2009) of HSH Nordbank via a **guarantee facility** (second loss guarantee) of **EUR 10bn**
- **First losses** of up to **EUR 3.2bn** were to be **borne by HSH Nordbank** (completely settled)
- The guarantee was structured as a financial guarantee in accordance with the IFRS rules

Performance of the reference portfolio

- The reference portfolio has been drastically reduced since March 2009 by about EUR 154bn (-84%) from EUR 183bn to a current outstanding **EaD[1] of EUR 28.8bn**
- Shipping accounts for an EaD[1] of EUR 12.5bn and Real Estate accounts for an EaD[1] of EUR 5.0bn



Effect of the guarantee

1. Guarantee compensates for loan loss provisions (SLLP[2] + GLLP[3]) of up to EUR 10bn within the second loss tranche, this relieves the result in the income statement
2. Guarantee reduces RWA and accordingly strengthens the capital position
3. Compensation for losses actually incurred within the second loss tranche by the guarantor

[1] Exposure at default; [2] Special loan loss provisions; [3] General loan loss provisions

Reference portfolio and guarantee components

Guarantee

in EUR million, IFRS - 2016	Core Bank	Non-Core Bank	Group
Reference portfolio (in EUR billion, EaD/percentage distribution)	10.5 / 37%	18.2 / 63%	28.8
NPE[1] total / guaranteed (in EUR billion)	1.0 / 0.8	13.6 / 11.9	14.6 / 12.7
Loan loss provisions[2] (in EUR billion)	0.3	5.9	6.2
RWA[3] after guarantee[4] (in EUR billion)	0.7	5.0	5.6
Expenses for government guarantees (in EUR million/percentage distribution)	-25 / 12%	-189 / 88%	-214

- At EUR 18.2bn, the vast majority (63%) of the reference portfolio of EUR 28.8bn that is covered by the guarantor is attributable to the Non-Core Bank and 37% attributable to the Core Bank
- The guarantee covers 87% of the non-performing exposure of EUR 14.6bn
- The portfolio share with the highest risk concentration is in the Non-Core Bank, with RWA[2] of EUR 5.0bn
- The guarantee fees are distributed on the basis of economic capital commitment, primarily to the Non-Core Bank (88%) and to a lesser extent to the Core Bank (12%)

[1] Non-performing exposure, default categories 16 to 18; [2] Before consolidation, incl. loan loss provisions on contingent liabilities/securities in the reference portfolio excl. compensation; [3] Risk weighted assets; [4] Exclusive cost of capital deduction item pursuant to page 51

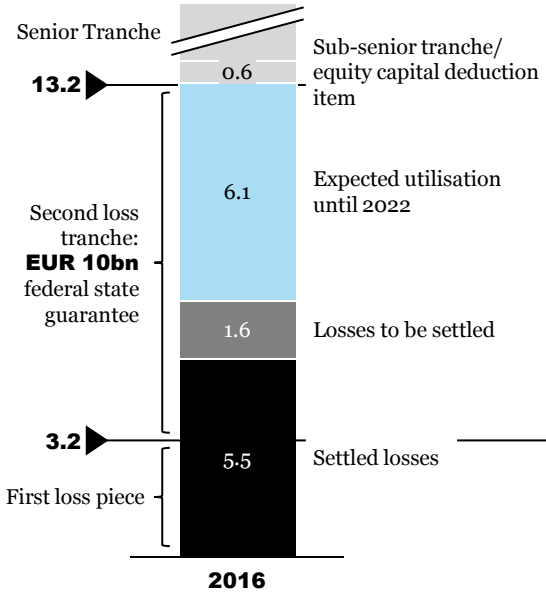
Guarantee utilisation rises and results in changes in regulatory classification

Guarantee

HSH NORDBANK

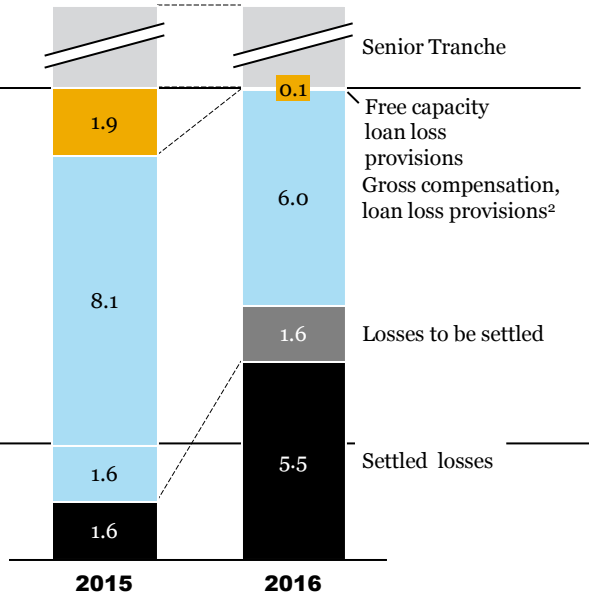
Guarantee structure in reference portfolio

in EUR billion



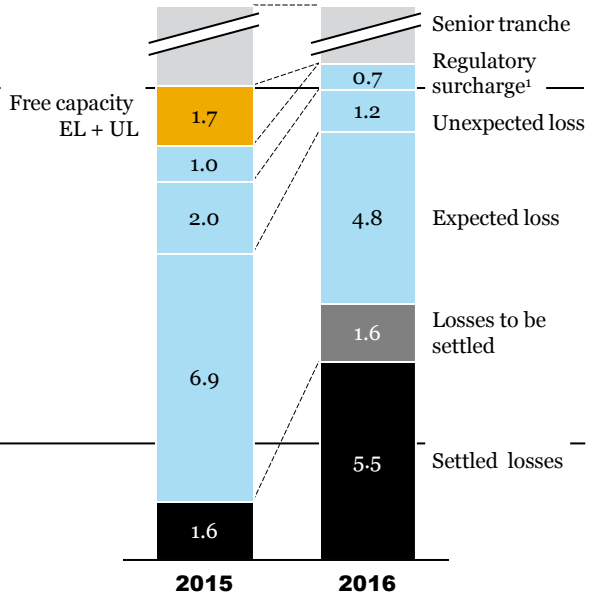
Balance sheet breakdown

in EUR billion



Regulatory breakdown

in EUR billion



- Creation of a sub-senior tranche in the regulatory presentation. The senior tranche is split into two sub-tranches and the sub-senior tranche is deducted from the regulatory equity capital; equity capital deduction item[3] of around EUR 0.6bn as at 31 Dec 2016
- For the remaining senior tranche, the risk weight is around 24% and is thus slightly higher than the regulatory minimum risk weight of 20%. There is no free regulatory guarantee buffer as at the end of 2016 (PY: around EUR 1.7bn)
- As of the 4th quarter of 2016, regulatory full loss settlement of the loan loss provisions that have been booked out, but not yet settled with the guarantor, has been assumed. The proportion comes to EUR 1.6bn as at 31 Dec 2016

[1] Regulatory surcharge for foreign exchange risk, residual amount and other; [2] Incl. credit risks under partial guarantee 2 (credit derivative) and excl. losses to be settled;
[3] Sub-senior tranche is independent of the consideration of the regulatory surcharge

Moody's and Fitch confirm HSH Nordbank's ratings

Rating

HSH NORDBANK

Rating[1]

	Moody's	Fitch
Public Pfandbrief	Aa2	-
Mortgage Pfandbrief	Aa3	-
Ship Pfandbrief	Baa1	-
Long term deposits	Baa3, dev.[2]	BBB-
Senior-senior unsecured bank debt[3]	Baa3, dev.[2]	BBB-
Senior unsecured, long term	Baa3, dev.[2]	BBB- neg.
Short term liabilities	P-3	F3
Subordinated capital	B2	B-
Hybrid capital T1	Ca	-
Financial Strength (BCA)/Viability Rating (VR)	BCA: b3	VR: b

MOODY'S

As at 09.01.2017/07.02.2017

- "NPL divestments offer some relief, but asset quality will remain poor and NPL ratios high compared with peers"
- "HSH's portfolio divestments have resulted in a better matched maturity profile. The €5.0 billion NPLs transferred out in June no longer require funding as the federal states, as the new owners of these assets, have alternative funding sources.
- "Large volumes of non-performing exposures are a major obstacle to HSH's privatisation"
- "If its privatisation is successful, HSH will emerge as a smaller, financially stronger bank. It would no longer be burdened with high-risk legacy assets and would have fair prospects of sustainable profits"

FitchRatings

As at 02.12.2016

- "HSH's capitalisation (end-1H16 FCC/RWAs: 14.0%) has improved since end-2014, driven by lower RWAs. HSH reported a fully loaded CET1 ratio of 12.8% at end-1H16, which compares well with its Landesbanken peers"
- "The amount of business that HSH has acquired since 2011 that is still on its balance sheet (€18.5bn exposure-at-default EaD) shows good asset quality with the exception of €2.5bn of shipping loans"
- "HSH's NPL ratio is the highest among its Landesbanken peers and weak shipping markets continue to burden its asset quality"

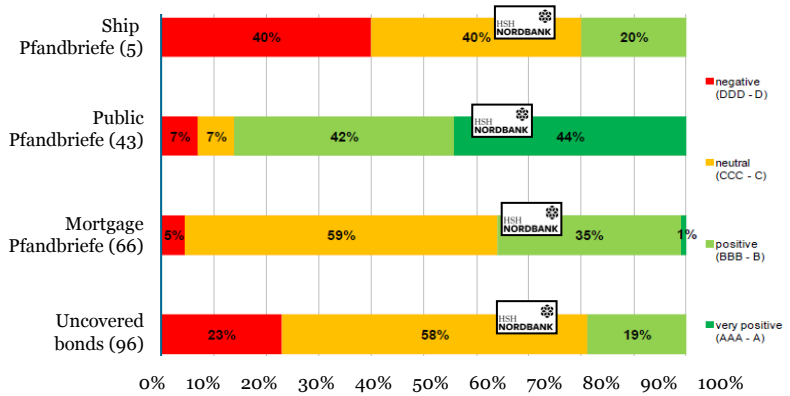
[1] See also latest publications by the rating agencies on the HSH Nordbank homepage: www.hsh-nordbank.de/de/investorrelations/rating/rating.jsp; [2] Developing (dev.); [3] Comprises so-called complex structured notes issued by German banks which benefit from a preferential treatment in a bail-in over non-structured notes under the new German insolvency law as of 2017 (German Banking Act (KWG) Section 46f paragraph 6 and 7)

HSH Nordbank with positive rating for sustainability

Sustainability rating

SHIP PFANDBRIEFE	PUBLIC PFANDBRIEFE	MORTGAGE PFANDBRIEFE	UNCOVERED BONDS
RATING 2016 NEUTRAL CC	RATING 2016 VERY POSITIVE A	RATING 2016 POSITIVE B	RATING 2016 NEUTRAL CC

Rating distribution by asset class[1]



- Further improvement in the imug sustainability rating for HSH Nordbank bank bonds
- Improvement of one notch in rating for public Pfandbriefe from BBB (positive) to A (very positive). The other ratings are unchanged
- HSH Nordbank is at the upper end of average compared with other banks (see graphic on the left)

[1] Source: imug Beratungsgesellschaft für sozial-ökologische Innovationen mbH - sustainability rating of bank bonds in 2016; 96 issuers, 13 promotional and development banks not listed

Membership of the protection scheme of the German Savings Banks Finance Group (SFG)

Change in ownership

HSH NORDBANK

Simplified sample presentation

STATUS QUO – protection scheme of the German Savings Banks Finance Group

1 Voluntary institutional protection

The objective of this scheme is to protect the member institutions themselves and to avert imminent or existing financial difficulties at these institutions. To achieve this, the protection scheme can, for example, contribute new liability funds, provide guarantees or sureties vis-à-vis third parties or even satisfy third-party claims. These measures may be combined. This is designed to rectify the problems faced by the institution in question and to avoid a bank resolution with regard to the SAG[1].

The protection scheme has set up a risk monitoring system with corresponding organisational structures for preventative purposes. This system helps imminent financial difficulties to be identified early on/to prevent such difficulties from arising in the first place, and allows suitable counter-measures to be taken. In this way the triggering of a deposit guarantee event (as point 2.) should be avoided so that the business relationships with the clients can be continued as contractually agreed.

All the securities (not of an equity / regulatory capital nature[2]) that HSH Nordbank AG has issued will therefore continue to fall under the institutional protection of the guarantee system of the Savings Banks Finance Group (Art. 39 (1) of the statutes).

2 Statutory deposit protection

In case the German Federal Financial Supervisory Authority ascertains a compensation case in accordance with EinSiG[3] (e.g. if the voluntary institutional protection scheme has failed averting financial difficulties at a credit institution), the customer has a claim against the deposit guarantee scheme for the repayment of his deposits up to EUR 100,000. This compensation shall be paid within seven working days.

More information under www.dsgv.de/sicherungssystem.

[1] German Act on the Recovery and Resolution of Credit Institutions; [2] In particular pursuant to paragraphs 41, 44 of the Communication from the European Commission 2013/C 216/01 of 30 July 2013 ("Banking Communication"); [3] Deposit Guarantee Act

Membership of a protection scheme beyond 2018

Change in ownership

Simplified sample presentation

HSH NORDBANK

LOOKING AHEAD

	Protection scheme	Viability assessment of business model by EU COM
1. Change in ownership within SFG	Remain member in the German Savings Banks Finance Group ✓	Profitability confirmed ✓
2. Change in ownership outside of SFG	▪ Member of protection scheme of SFG for another two years[1] ▪ Protection scheme of the buyer, e.g. Association of German Banks (Bundesverband deutscher Banken) ✓	Profitability confirmed ✓
3. Suspension of new business	Remain member in the German Savings Banks Finance Group ✓	Profitability not confirmed ✗

► Options 1 and 2 include the assessment of the sustainable stability of the new institution by the European Commission

TIME SCHEDULE

30.06.2016	28.02.2018	28.02.2020	
HSH Nordbank	Sales phase	Remain in the protection scheme	...

► HSH Nordbank AG will remain a member of the Savings Banks Finance Group until at least 28 February 2018

► Should HSH Nordbank's membership of the Savings Bank Finance Group end at a date not currently foreseen, its membership in the protection scheme of the Savings Bank Finance Group would continue for another two years in accordance with Section 94(4) of the Framework Statutes, i.e. expected until at least 2020

[1] Depends on the completion of the change in ownership

Management Board and shareholder structure of HSH Nordbank

Management Board of HSH Nordbank

CEO
Stefan Ermisch

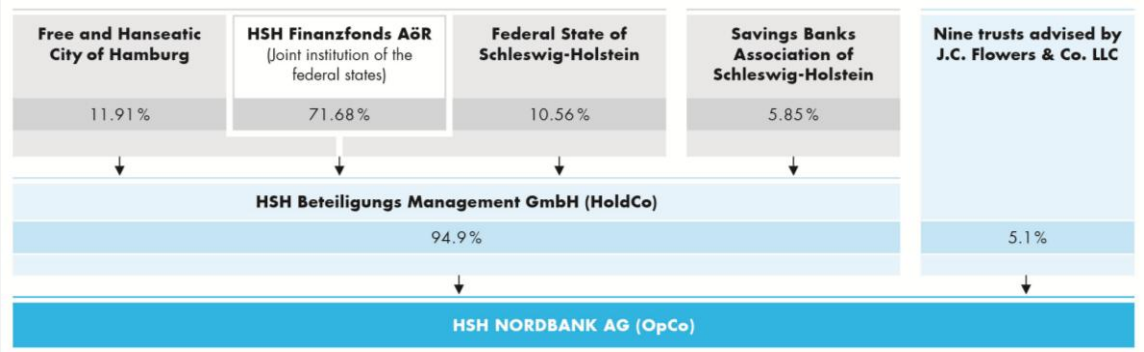
CRO
Ulrik Lackschewitz

CFO
Oliver Gatzke

Market
Torsten Temp

- Newly structured Management Board
- Streamlined Business Units Head level
- Organisational structure optimised for change in ownership

Shareholder structure of HSH Nordbank



Development in regulatory requirements

Regulatory requirements

HSH NORDBANK

IFRS 9

- The final version of IFRS 9, published in July 2014, replaces the existing guidelines contained in IAS 39 on the recognition and measurement of financial instruments and is to be applied for the first time, as a mandatory requirement, as of 1 January 2018
- The newly defined requirements include:
  - 1 **Classification & Measurement** ▶ New classification model - expansion of fair value evaluation on the balance sheet
  - 2 **Expected Credit Losses/Impairment** ▶ New loan loss provision model - setting up LLPs earlier and in a higher amount
  - 3 **Hedge Accounting**[1] ▶ Simplifications and additional options for the reporting of hedging relationships in the balance sheet
- HSH Nordbank has been making intensive preparations as part of several projects since the end of 2014 for the initial application of IFRS 9. The aim is to implement new requirements for classification and measurement, in particular impairment, and hedge accounting in the affected IT systems and processes on time as at 1 January 2018

Basel IV

- The changes discussed under Basel IV, which will serve, amongst other things, to improve the comparability of RWA profiles and reduction of complexity concerning risk identification, are at the same time aimed at the harmonisation of supervisory practices in the EU and are to improve transparency vis-à-vis the markets
- The change requests include in particular capital floors when using internal models (so-called "CSA floor"), limiting capital savings through the use of internal risk parameters ("IRB constrained", closer consideration of interest rate risk in the banking book and an adjustment of the approaches adopted for capital backing of securitisations
- Although there was not yet an agreement on the application of the Basel IV regulations at the beginning of 2017 and despite the ongoing uncertainty in this regard, a trend towards higher capital requirements is increasingly to be expected

MREL

- The implementation of the Bank Recovery and Resolution Directive – BRRD[2]) into national law will result in new capital requirements in 2018. The European Single Resolution Board will set an institution-specific ratio for the regulatory capital and eligible liabilities to be maintained at a minimum for institutions directly supervised by the ECB and therefore for HSH Nordbank (MREL)
- The Minimum Requirements for Own Funds and Eligible Liabilities (MREL) that have applied since the beginning of 2016 in accordance with the BRRD[2] are designed to ensure that institutions located in the EU have a minimum ratio of regulatory capital and liabilities eligible for bail-in at all times
- Unlike the TLAC, which refers to RWA – this ratio is expressed as a proportion of total liabilities, including regulatory capital

[1] Reform provisions on macro/portfolio hedge accounting are not included in IFRS 9 and will be dealt with in a separate IASB project; [2] Bank Recovery and Resolution Directive

Overview of the Group income statement

Financial key figures over time

HSH NORDBANK

in EUR million, IFRS	12M 2016	6M 2016	12M 2015	6M 2015	12M 2014	6M 2014	12M 2013	6M 2013	12M 2012	6M 2012	12M 2011	6M 2011	12M 2010
Net interest income	607	374	1,032	448	586	231	929	480	1,520	453	1,350	635	1,502
Net commission income	87	50	114	62	130	73	104	52	119	44	120	61	218
Result from hedging	-4	2	12	8	-40	-12	9	10	6	9	4	-10	8
Net trading income	88	40	84	71	61	112	193	114	-238	-210	-173	1	-156
Net income from financial investments[1]	143	75	54	56	171	242	261	153	39	142	23	62	219
Total income	**921**	**541**	**1,296**	**645**	**908**	**646**	**1,496**	**809**	**1,446**	**438**	**1,324**	**749**	**1,791**
Loan loss provisions in the lending business[2]	156	151	304	127	577	337	-833	-192	-656	-111	389	317	-317
Administrative expenses	-634	-277	-634	-302	-724	-338	-755	-382	-821	-385	-837	-382	-867
Other operating result	58	43	38	53	123	54	44	53	191	253	36	13	-6
Expenses for European bank levy[3]	-56	-63	-50	-54	-1	-	-	-	-	-	-	-	-
Net income before restructuring	**445**	**395**	**954**	**469**	**883**	**699**	**-48**	**288**	**160**	**195**	**912**	**697**	**601**
Result from restructuring	-110	-98	-31	-12	-84	-8	-56	-8	-43	-19	-235	2	-9
Expenses for government guarantees[4]	-214	-126	-473	-235	-521	-259	-414	-143	-302	-157	-883	-211	-519
Net income before taxes	**121**	**171**	**450**	**222**	**278**	**432**	**-518**	**137**	**-185**	**19**	**-206**	**488**	**73**
Income tax expenses	-52	-11	-352	-75	-118	-131	-251	-7	61	35	-59	-150	31
Net income after taxes	**69**	**160**	**98**	**147**	**160**	**301**	**-769**	**130**	**-124**	**54**	**-265**	**338**	**104**

[1] Incl. result from the financial investments accounted for under the equity method; [2] Net loan loss provisions after effects relating to the guarantee, hedging effect of credit derivative
[3] Incl. deposit guarantee fund; [4] Base premium and subsequent payment

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Management system and defined management indicators of the IFRS Group

The Bank's integrated management system is aimed at the management of key value drivers – income, efficiency & profitability, risk, capital and liquidity – on a targeted basis. For this purpose the Bank uses a risk-adjusted key indicator system that ensures that the Overall Bank, Core Bank and Non-Core Bank are managed in a consistent and effective manner. The HSH Nordbank Group is managed mainly on the basis of figures for the Group prepared in accordance with the International Financial Reporting Standards (IFRS).
Within the framework of management reporting the Bank focuses on the most important management indicators for the individual value drivers of the IFRS Group. The focus is, on the one hand, on the trend of these indicators during the year to date compared to the same period in the previous year and, on the other hand, on their expected change during the course of 2017 (forecast, opportunities and risk report section). Further information on the management system and defined management indicators of the HSH Nordbank Group can be found in the HSH Nordbank's Group Management Report for the 2016 financial year in the "Management system" subsection in the "Basis of the Group" section.

Contacts

Oliver Gatzke

CFO

HSH Nordbank AG
Gerhart-Hauptmann-Platz 50
D-20095 Hamburg

Harald Müller

Head of Bank Steering

Tel.: +49 (0)40 3333 13495
Fax: +49 (0)40 3333 613495
harald.mueller@hsh-nordbank.com

HSH Nordbank AG
Gerhart-Hauptmann-Platz 50
D-20095 Hamburg

Martin Jonas

Head of Investor Relations

Tel.: +49 (0)40 3333 11500
Fax: +49 (0)40 3333 611500
martin.jonas@hsh-nordbank.com

HSH Nordbank AG
Gerhart-Hauptmann-Platz 50
D-20095 Hamburg

Ralf Löwe

Treasury & Markets
Head of Funding / Debt Investor Relations

Tel.: +49 (0)431 900 25421
Fax: +49 (0)431 900 625421
ralf.loewe@hsh-nordbank.com

HSH Nordbank AG
Schloßgarten 14
D-24103 Kiel