Investor Relations News

Privatisation & Preliminary Group Net Result for 2017

INVESTOR RELATIONS
HAMBURG, 28 FEBRUARY 2018
New, solely private and independent owners affiliated with Cerberus European Investments LLC, J. C. Flowers & Co. LLC, GoldenTree Asset Management L.P., Centaurus Capital LP and BAWAG P.S.K. AG

Federal state owners Hamburg and Schleswig-Holstein as well as the Savings Banks Association of Schleswig-Holstein have concluded a contract to sell all of their shares in HSH Nordbank AG (94.9%) held indirectly – first successful privatisation of a federal state bank in Germany initiated

Sale subject to various approvals: Among others ownership control procedure of the banking supervision, approval from the EU-Commission as well as the state parliaments in Hamburg and Schleswig-Holstein. Hence, completion is expected in the second or third quarter 2018 (closing)

Disposal of nearly all legacy assets by transfer of predominantly NPE (portfolio-transaction) – mainly shipping loans – to an acquisition vehicle of Cerberus European Investments LLC, J.C. Flowers & Co. LLC, GoldenTree Asset Management L.P. and Centaurus Capital LP

Portfolio-transaction comprehensively improves the credit quality of the future bank. As of today, NPE-ratio to be reduced below two percent, cancellation of Non-Core Bank and complete termination of guarantee intended at closing

Impact on the 2017 financial statements will be examined immediately. Therefore, publication of the 2017 annual financial statements postponed to 26th April 2018

Portfolio-transaction leads to an adjustment of the 2017 profit forecast, loss before taxes in the mid three-digit million area will be reported (IFRS)

Due to a very comfortable capital position one-off burden resulting from the portfolio-transaction can easily be processed: Post transaction CET1 ratio of approx. 15 percent expected
A new era – focussed and agile bank from the North of Germany for medium-sized enterprises

Privatisation

ReStart – Repositioning

▶ New owners -> “New Bank”
▶ New name, new brand
▶ Healthy bank, relieved from Non-Core Bank and guarantee, discontinuation of previous restrictions from the EU-state aid proceeding will open additional business opportunities
▶ Perspective intensification of international activities in selected business areas: A series of own initiatives already prepared; “New Bank” will benefit from the expertise of new owners
▶ Further cost reduction as well as expansion of product portfolio and strengthening of net commission income to improve profitability
▶ Prospective improved liability structure and funding base
▶ Seamless transition of the guarantee scheme from the German Savings Banks Finance Group (SFG) to the Association of German Banks (Bundesverband deutscher Banken - BdB) planned
▶ Sustainable development of the “New Bank” with first-class, competitive management indicators / KPIs
Ongoing positive business development in the run-up to the change in ownership

- Preliminary Group net result before taxes of approx. EUR 290mn before privatisation effects (PY: EUR 121mn)
- Total income of EUR 1,235mn up significantly year-on-year (PY: EUR 921mn) including realisation of unrealised gains
- New business of EUR 8.5bn almost on a par with the previous year of EUR 8.9bn
- Administrative expenses of EUR -507mn reduced further compared to previous year of EUR -634mn
- Non-Core Bank legacy burdens systematically reduced by EUR 11.4bn, with that legacy burdens of have more than halved to EUR 10bn EAD (PY: EUR 21.4bn)
- CET1 ratios at a high level: Phase-in without guarantee ~18%\(^1\) (PY: 12.6%)
- Liquidity ratios: LCR 177%, NSFR 116%
- Funding plan for 2017 exceeded

### New business

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>EUR bn</td>
<td>8.9</td>
<td>8.5</td>
</tr>
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</table>

-4% decrease

- Thereof almost EUR 2.3bn with 120 new clients

### Breakdown of new business\(^2\)

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
</tr>
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<tbody>
<tr>
<td>EUR bn</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate Clients</td>
<td>3.8</td>
<td>3.1</td>
</tr>
<tr>
<td>Real Estate Clients</td>
<td>4.6</td>
<td>4.7</td>
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<tr>
<td>Shipping</td>
<td>0.3</td>
<td>0.5</td>
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\(^1\) Indicative, without taking into account the regulatory relief effect of the guarantee; \(^2\) 2017 new business plus EUR 0.2bn from Treasury & Markets (PY: EUR 0.2bn)
Business model for a sustainably profitable bank with a significantly improved balance sheet structure

Privatisation

Strategic realignment of the business model

- **Positive business development in 2017** has made the bank significantly more robust
- **Further relief from nearly all legacy burdens** due to the portfolio-transaction - transfer of predominantly NPE
- **Less complexity in the entire organization:** Also due to termination of the guarantee, expected for 2018
- **Optimisation of liabilities** through improvement of deposit-structure, among others acquisition of retail deposits
- Targeted reduction in **liquidity reserve**
- **Trend towards higher net margins** due to decreasing liquidity costs and rising interest rate environment
- **Rising commission income** thanks to initiatives launched by market and product units
- **Increased efficiency** among others by further cost initiatives
- **Normalisation of loan loss provisions** following reduction of legacy burdens
- **RWA-friendly business initiatives** (e.g. OtD²)

<table>
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<tr>
<th>Objectives for 2022</th>
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<tr>
<td><strong>Capital</strong></td>
</tr>
<tr>
<td>CET1</td>
</tr>
<tr>
<td>~ 15%</td>
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<tr>
<td><strong>Credit quality</strong></td>
</tr>
<tr>
<td>NPE ratio</td>
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<tr>
<td>~ 2%</td>
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<tr>
<td><strong>Total assets</strong></td>
</tr>
<tr>
<td>in EUR bn</td>
</tr>
<tr>
<td>~ 55</td>
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<tr>
<td><strong>Costs</strong></td>
</tr>
<tr>
<td>CIR³</td>
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<tr>
<td>~ 40%</td>
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<tr>
<td><strong>Profitability</strong></td>
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<tr>
<td>RoE before taxes</td>
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<td>&gt; 8%</td>
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</table>

¹ Incl. other operating result; ² Originate to Distribute
The new majority owners – J.C. Flowers & Co and Cerberus Capital Management, L.P.

Privatisation

Future owners are among the world’s most experienced financial investors in the banking sector

J.C. Flowers is a leading private investment firm dedicated to investing globally in the financial services industry. Founded in 1998, the firm has invested more than $15 billion of capital in 50 portfolio companies in 17 countries across a range of industry subsectors including banking, insurance and reinsurance, securities firms, specialty finance, and services and asset management. With approximately $6 billion of assets under management, J.C. Flowers has offices in New York and London. For more information, visit jcfco.com.

Cerberus is a global leader in alternative investing with more than US $34 billion under management across complementary credit, private equity, and real estate strategies. From its headquarters in New York City and network of affiliate and advisory offices in the U.S., Europe, and Asia, Cerberus has the on-the-ground presence to invest in multiple asset classes globally.

"HSH Nordbank is a well-positioned bank, with a strong franchise, a loyal client base, and a management team focused on building a leading financial institution in Germany and across Europe,” said J. Christopher Flowers, CEO of J.C. Flowers & Co. “We have a long relationship with the bank, and our new investment reinforces our commitment to the institution and our confidence in its future.”

“Cerberus has an extensive track record of investing in Europe and in the global financial services sector,” said David Teitelbaum, Head of Cerberus’s European Advisory Offices. “Cerberus is excited about this new opportunity to be a long-term shareholder of HSH Nordbank. We believe Germany is a highly attractive place to invest and the long-term opportunities in corporate banking are particularly strong. We are pleased to be associated with HSH’s new future, which will be driven by its strong leadership team and its people’s foresight, passion, and initiative.”
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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 and ratio system that ensures that the Total Bank, Core Bank and Non-Core Bank are managed in a uniform 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 rest 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.