Investor Relations News

Financial key figures for Q1 2018

INVESTOR RELATIONS
HAMBURG, 15 JUNE 2018

HSH
NORDBANK

HSH Nordbank AG - Q1 2018 results at a glance

Q1 2018 IFRS financial key figures

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Group

EaD: EUR 63.3bn (31.12.2017: EUR 72.2bn)

Net income before taxes: EUR -60mn burdened by premature termination of the guarantee (PY: EUR 128mn).

CIR: 68.0%

NPE ratio[1] 5.1%/coverage ratio[2]: 57%

CET1 ratio excl. guarantee[3]: 15.5%

Core Bank

- Future-oriented segments

Corporate Clients	Real Estate Clients	TXB[4]
EaD: EUR 13.9bn	EaD: EUR 12.3bn	
Shipping	**Treasury & Markets**	
EaD: EUR 5.2bn	EaD: EUR 18.1bn	

- Annual contributions for bank levy and deposit guarantee fund of EUR -27mn have a negative impact
- Loan loss provisions of EUR 61mn (PY: EUR -5mn) benefited from reversal of SLLPs and GLLPs due to successful restructuring in Shipping
- Drop in EaD to EUR 3.6bn due to reduced cash reserve (31.12.2017: EUR 6.6bn)

EaD: EUR 49.5bn
(31.12.2017: EUR 53.7bn)

Net income before taxes: EUR 182mn
(PY: EUR 279mn)

Other and Consolidation

- Overall Bank positions
- Transformation-related costs for liquidity building and structure
- Commission expenses for synthetic securitisation transaction
- Net income from restructuring and privatisation
- EaD of EUR 8.4bn largely shows the liquidity reserve

EaD: EUR 8.4bn
(31.12.2017: EUR 8.7bn)

Net income before taxes: EUR -101mn (PY: EUR -58mn)

Non-Core Bank

- Non-strategic and non-performing assets
- Burdens of EUR -112mn mainly for premature termination of the guarantee
- Portfolio transaction to reduce NPE ratio to ~2% in the Group after closing
- Group without Non-Core Bank after closing

EaD: EUR 5.4bn
(31.12.2017: EUR 9.8bn)

Net income before taxes: EUR -141mn (PY: EUR -93mn)

[1] Decline (from 10.4% as at 31.12.2017) resulting from fair value measurement of the portfolio transaction due to IFRS9, portfolio transaction to be implemented upon closing; [2] Ratio of specific loan loss provisions on defaulted loans measured at amortised cost (AC) to the exposure at default (EaD) for these defaulted loans (NPE); [3] From March 2018, the capital ratios will no longer be shown taking into account the regulatory relief effect of the federal state guarantee. CET1 ratio: 15.5% in-period and 15.1% not in-period (regulatory capital ratio);
[4] Transaction Banking is not an independent segment

Start of the year with satisfactory business development and good new business profitability

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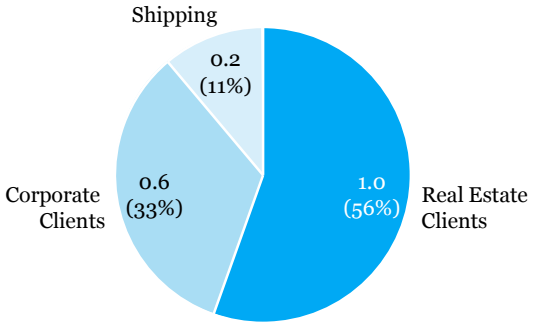
Core Bank

- Core Bank net income before taxes of EUR 182mn (PY: EUR 279mn)
- Total income in line with plan at EUR 238mn (PY: EUR 395mn)
- New business of EUR 1.7bn (PY: EUR 2.2bn) according to stringent risk and return requirements and increased new business margin as against previous quarter
- Further reduction in administrative expenses to EUR -73mn (PY: EUR -80mn) as planned

New business[1]: EUR 1.7bn

in EUR bn/%

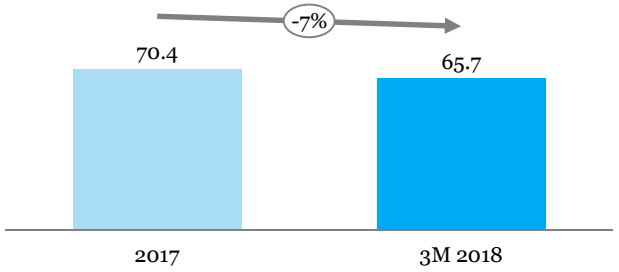


Group

- CET1 ratio at a high level: Excl. guarantee[2] 15.5% (31.12.2017: 15.4%)
- RWA reduced to EUR 25.7bn (31.12.2017: EUR 26.2bn)
- Liquidity ratios: LCR 170%, NSFR 113%
- Leverage ratio of 7.6% (31.12.2017: 7.7%)

Group total assets on the decline as planned

in EUR bn



[1] Rounding differences possible; [2] From March 2018, the capital ratios will no longer be shown taking into account the regulatory relief effect of the federal state guarantee. CET1 ratios: 15.5% in-period and 15.1% not in-period (regulatory capital ratio)

Core business fields with positive earnings contribution

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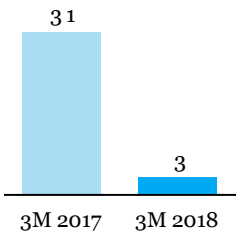
Corporate Clients – net income before taxes

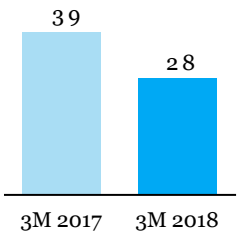
in EUR mn



- Lower total income in competitive environment, net commission income lower than expected
- Previous year characterised by positive valuation effects relating to client derivatives
- Loan loss provisions of EUR -8mn insignificant (PY: EUR 3mn)
- New business of EUR 0.6bn in accordance with market development

Real Estate Clients – net income before taxes

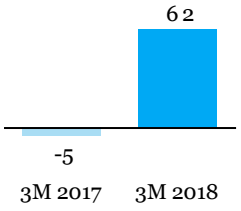
in EUR mn



- Falling interest rate margins in a challenging market environment with manageable burden on total income
- Previous year characterised by positive valuation effects relating to client derivatives
- New business of EUR 1.0bn meets expectations
- Continued positive development in the business with international institutional investors

Shipping – net income before taxes

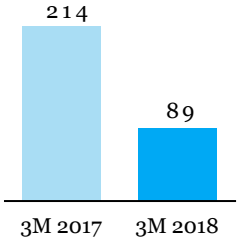
in EUR mn



- Net result characterised by positive loan loss provisions from reversals of SLLPs and GLLPs due to successful restructuring
- Shipping market shows further stabilisation in sub-segments relating to containers and bulkers
- New business with national and international shipping companies with good credit ratings of EUR 0.2bn in line with both the plan and the previous year's level

Treasury & Markets - net income before taxes

in EUR mn



- Drop in earnings due to significantly lower income from sales of securities
- Earnings contribution from operating business in line with expectations
- Distribution of capital market products on a par with the previous year
- Income from management of Total Bank positions provides a boost

Premature termination of the guarantee has a significant negative impact on net income before taxes of EUR -100mn

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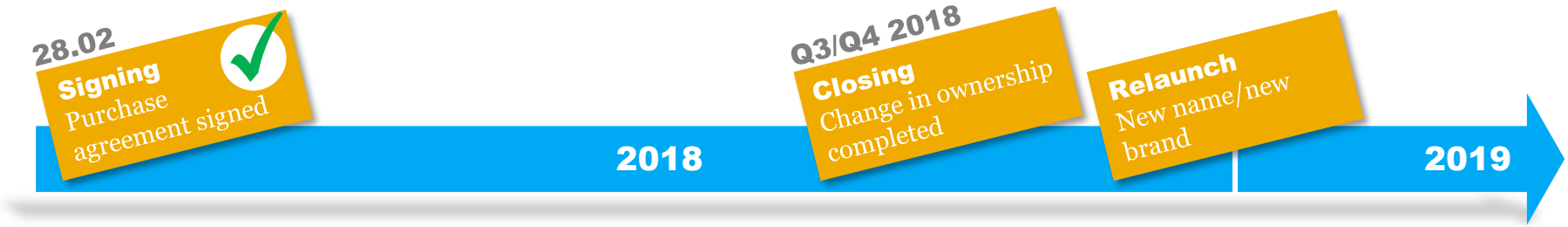
Q1 2018 IFRS financial key figures

in EUR mn, IFRS	Core Bank		Other and Consolidation		Non-Core Bank		Group	
	3M 2017	3M 2018	3M 2017	3M 2018	3M 2017	3M 2018	3M 2017	3M 2018
Net interest income	322	148	-27	-53	-5	40	290	135
Net commission income	21	18	-9	-9	6	2	18	11
Result from hedging	-	-	-6	-5	0	0	-6	-5
Result from financial instruments categorised as FVPL[1]	52	35	8	-12	27	-42	87	-19
Net income from financial investments including other income items[2]	-	37	4	2	2	0	6	39
Total income	**395**	**238**	**-30**	**-77**	**30**	**0**	**395**	**161**
Loan loss provisions[3]	-5	61	-13	-3	-38	6	-56	64
Administrative expenses	-80	-73	1	-6	-57	-44	-136	-123
Other operating income	2	2	7	3	18	15	27	20
Expenses for bank levy and deposit guarantee fund	-28	-27	-7	-7	-10	-6	-45	-40
Net income before restructuring and privatisation	**284**	**201**	**-42**	**-90**	**-57**	**-29**	**185**	**82**
Net income from restructuring and privatisation	0	0	-16	-11	0	0	-16	-11
Expenses for government guarantees	-5	-19	0	0	-36	-112	-41	-131
Net income before taxes	**279**	**182**	**-58**	**-101**	**-93**	**-141**	**128**	**-60**
Income tax expense							-24	-43
Net income after taxes							**104**	**-103**

[1] In the previous year, under IAS 39, the item "net trading income" (FVPL = fair value through profit or loss); [2] IFRS9-related summary of P&L positions, for more information on IFRS 9-related adjustments, please refer to the financial information as at 31.03.2018; [3] After the effects of the guarantee, foreign exchange result and hedging effect of credit derivative; for more information on IFRS 9-related adjustments, please refer to the financial information as at 31.03.2018

Focus on closing – successful change in ownership expected in Q3/4 2018

Privatisation



- **Initial closing conditions met**:
  - ✓ Approval of Federal Cartel Office and Austrian anti-trust authorities granted in April 2018 (merger control)
  - ✓ Approval of state parliament in Schleswig-Holstein granted in April 2018
  - ✓ Approval of Hamburg City Parliament granted in June 2018
- **Further milestones**:
  - ☐ Guarantee – confirmation of final settlement of the second loss guarantee by HSH Finanzfonds AöR
  - ☐ SFG – DSGV guarantee scheme
  - ☐ Ownership control procedure - ECB
  - ☐ Viability review – European Commission

  Fulfilment of the other closing conditions depends, among other things, on transition from the public-sector to the private law guarantee schemes
- **Transformation intensively pressed ahead:**
  - Profitable and risk-oriented growth strategies developed
  - Reduction in complexity with significant cost reduction potential

Transformation of the business model for a sustainably profitable bank with a healthy balance sheet structure

Privatisation

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- **Further relief from almost all legacy burdens** thanks to portfolio transaction - transfer of NPE upon closing
- **Reduced complexity within the organisation** - including dissolution of the Non-Core Bank and termination of the guarantee
- **Increased efficiency** – among other things, further measures to reduce complexity
- **Optimised liabilities side** - among other things by attracting other retail deposits
- **Liquidity built up** to be reduced in a targeted manner
- **Trend towards higher net margins** due to decreasing liquidity costs and rising interest rate environment
- **Rising commission income** – initiatives launched by market and product units
- **Normalisation of loan loss provisions**
- **RWA-friendly business approaches** by expanding syndication activities (for example, SLS[2] and debt fund)

	Objectives for 2022
Capital CET1	~ 15%
Credit quality NPE ratio	~ 2%
Total assets in EUR bn	~ 55
Costs CIR[1]	~ 40%
Profitability RoE before taxes	> 8%

[1] Including other operating result; [2] Smart Loan Servicing

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Management system and defined management indicators of the IFRS Group

The Bank's integrated management system is aimed at the targeted management of key value drivers – income, efficiency/costs and profitability, risk, capital and liquidity. The Bank uses a risk-adjusted key indicator and ratio system for this purpose that ensures that the Overall 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) and the relevant prudential rules, respectively.
Within the framework of management reporting, the Bank focuses on the most important management indicators for the individual value drivers of the IFRS Group. On the one hand, the focus is placed on the change in these key indicators compared to the same period of the previous year and, on the other, on their expected change over the remainder of 2018.
Further information on the management system and defined management indicators of the HSH Nordbank Group is set out in HSH Nordbank Group Management Report for the 2017 financial year in the "Management System" subsection in the "Basis of the Group" section, and in the "Forecast, opportunities and risks report" section.