Investor Presentation

IFRS Group Result as at 30 June 2018

INVESTOR RELATIONS
HAMBURG, 29 AUGUST 2018

Next investor & analyst call expected to coincide with the closing in Q4 2018

HSH
NORDBANK

HSH Nordbank AG - Overview of results for H1 2018

IFRS Group Result as at 30 June 2018

HSH NORDBANK

Group

EaD: EUR 62.1bn (31.12.2017: EUR 72.2bn)

Net income before taxes: EUR -1mn (PY: EUR 173mn)

CIR: 61.0%

NPE ratio: 4.7%/coverage ratio[1]: 63.3%

CET1 ratio[2]: 16%

Core Bank (after portfolio transfer)

- Future-oriented segments

Corporate Clients	Real Estate Clients	TXB[3]
EaD: EUR 14.7bn	EaD: EUR 14.0bn	
Shipping	**Treasury & Markets**	
EaD: EUR 5.3bn	EaD: EUR 18.3bn	

- Acceptance of EUR 2.5bn in assets from the Non-Core Bank that are not covered by the portfolio transaction
- Core Bank with satisfactory development in the first half of the year, previous year's result characterised by comparatively high income from the sale of securities
- Positive loan loss provisions of EUR 157mn (PY: EUR 9mn) benefited from the reversal of SLLP and GLLP, including successful restructuring in Shipping and encouraging development on the relevant markets

EaD: EUR 52.3bn
(31.12.2017: EUR 53.7bn)

Net income before taxes: EUR 378mn
(PY: EUR 543mn)

Other and Consolidation

- Total Bank positions
- Transformation-related costs for liquidity building and structure
- Commission expense for synthetic securitisation transaction
- Burden from net income from restructuring and privatisation
- EaD of EUR 8.0bn consists largely of the liquidity reserve

EaD: EUR 8.0bn
(31.12.2017: EUR 8.7bn)

Net income before taxes: EUR -188mn
(PY: EUR -38mn)

Non-Core Bank

- Non-Core Bank exclusively comprises assets associated with the portfolio transaction
- Negative net income, in particular due to burdens of EUR -165mn relating primarily to the early termination of the guarantee and refinancing costs in the Non-Core Bank portfolio with other offsetting effects
- Administrative expenses of EUR -69mn (PY: EUR -95mn)
- Group without Non-Core Bank after closing

EaD: EUR 1.9bn
(31.12.2017: EUR 9.8bn)

Net income before taxes: EUR -191mn
(PY: EUR -332mn)

[1] 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); [2] From March 2018, the capital ratios are no longer shown taking into account the regulatory relief effect of the federal state guarantee. CET1 ratio: 16.0% in-period and 16.0% not in-period (regulatory capital ratio pursuant to CRR); [3] Transaction Banking is not an independent segment

Satisfactory Group development in the run-up to privatisation

IFRS Group Result as at 30 June 2018

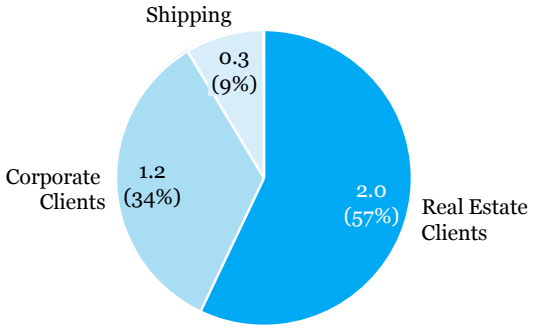
HSH NORDBANK

Core Bank

- Core Bank net income before taxes of EUR 378mn (PY: EUR 543mn)
- Total income above plan at EUR 435mn (PY: EUR 721mn)
- Gross new business including syndication amounts to EUR 3.8bn (PY: EUR 4.4bn), net new business of EUR 3.5bn based on stringent risk and return specifications and with an increased new business margin compared to the previous quarter
- Administrative expenses of EUR -156mn (PY: EUR -160mn) down only slightly due to asset transfer from the Non-Core Bank to the Core Bank, restructuring programme running according to plan
- NPE ratio: 2%

Net new business[1]: EUR 3.5bn

in EUR bn/%

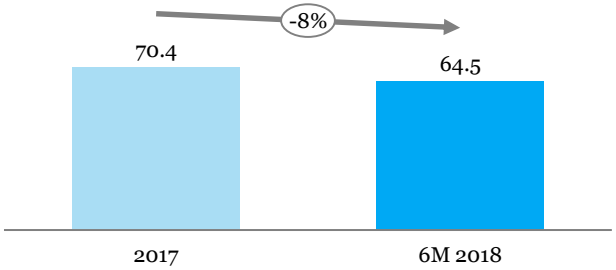


Group

- CET1 ratio[2] at a high level: 16.0% (31.12.2017: 15.4%)
- RWA reduced to EUR 24.8bn (31.12.2017: EUR 26.2bn)
- CIR: 61%
- NPE ratio: 4.7%
- Liquidity ratios: LCR 162%, NSFR 114%
- Leverage ratio: 8.0% (31.12.2017: 7.7%)

Group total assets on the decline as planned

in EUR bn



[1] Rounding differences possible; [2] CET1 ratios: 16.0% in-period and 16.0% not in-period (regulatory capital ratio pursuant to CRR)

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Agenda

1. Privatisation
2. H1 2018 IFRS Financial Key Figures
3. Outlook for 2018

Focus on closing – change of ownership expected in Q4 2018

Privatisation

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- **Closing conditions already fulfilled**:
  - ✓ Approval of Federal Cartel Office and Austrian anti-trust authorities granted in April 2018 (merger control)
  - ✓ Approval of Schleswig-Holstein State Parliament granted in April 2018
  - ✓ Approval of Hamburg Parliament (Bürgerschaft) granted in June 2018
  - ✓ Guarantee – Confirmation by HSH Finanzfonds AöR of full settlement of the second loss guarantee with settlement report notified in June 2018

- **Further milestones**:
  - ☐ Seamless transition from the public sector to the private sector protection scheme – Extension of membership in the protection scheme of the savings banks finance group (SFG) beyond the statutory 2 years by a third year. Also, in this context the aim is the subsequent membership in the voluntary deposit protection scheme of the BdB (Association of German Banks)
  - ☐ Ownership control procedures - ECB, BaFin and CSSF
  - ☐ Viability review – European Commission

Intensive progress is being made with the transformation process in parallel

Business model for a sustainably profitable Bank with a healthy balance sheet structure

Privatisation

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Transformation of the business model

- **Relief from almost all legacy burdens** thanks to the portfolio transaction - transfer of NPE
- **Reduced complexity within the organisation** - including dissolution of the Non-Core Bank and termination of the guarantee upon closing
- **Increased efficiency** – among other things, further measures to reduce complexity
- **Optimised liabilities side** - improved deposit structure, among other things by attracting retail deposits
- **Liquidity built up** to be reduced in a targeted manner
- **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

Liabilities side is strengthened: Reduced wholesale, more retail deposits

Privatisation

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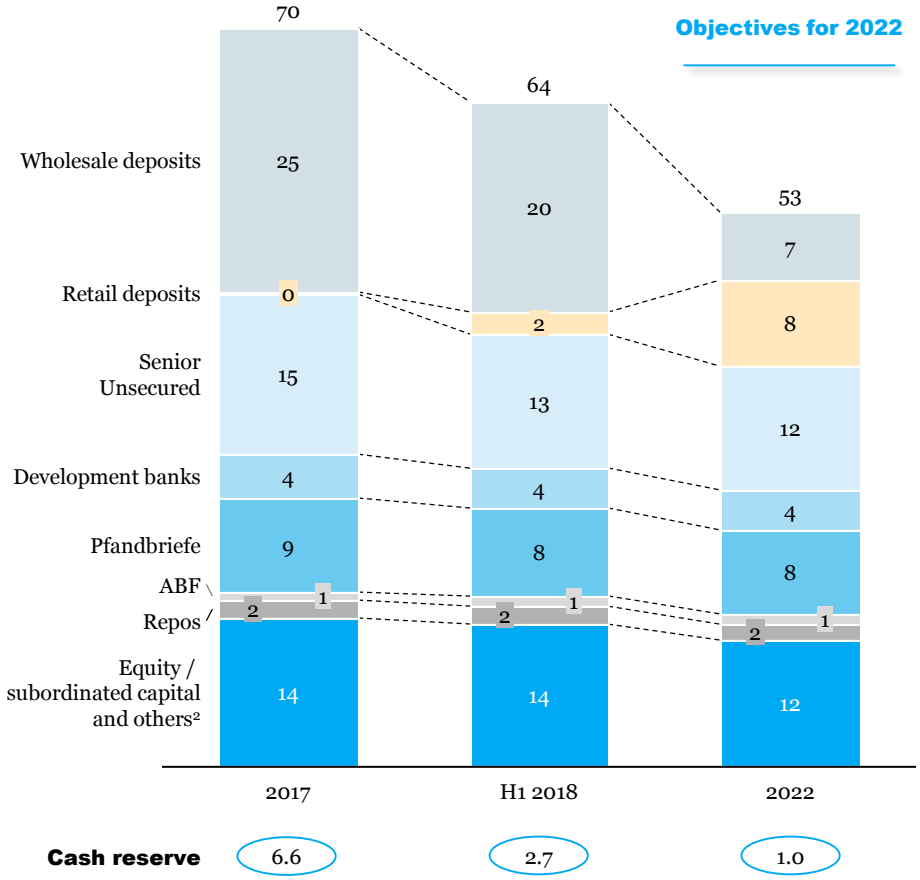
Liabilities structure[1] – approximated funding volume

in EUR bn



- Reduced total assets/liabilities, in particular by reducing concentration risks within deposits
- Establishment of retail deposits, also via online platform "Zinspilot" (Deposit Solutions) successfully launched at the end of 2017, current volume of deposits of around EUR 2.9bn
- Profitability hit by planned high liquidity, active reduction in surplus liquidity by reducing wholesale deposits under way
- Drop in funding costs as a central and realistic lever for increasing profitability
  - Progress in the privatisation process has already been resulting in lower refinancing costs since the autumn of 2017
  - Prospective convergence of funding levels with the competition

[1] Rounding differences possible; [2] Mainly trading liabilities, provisions and negative market value of derivatives

Transformation based on existing strengths, supplemented by selected international activities

Privatisation

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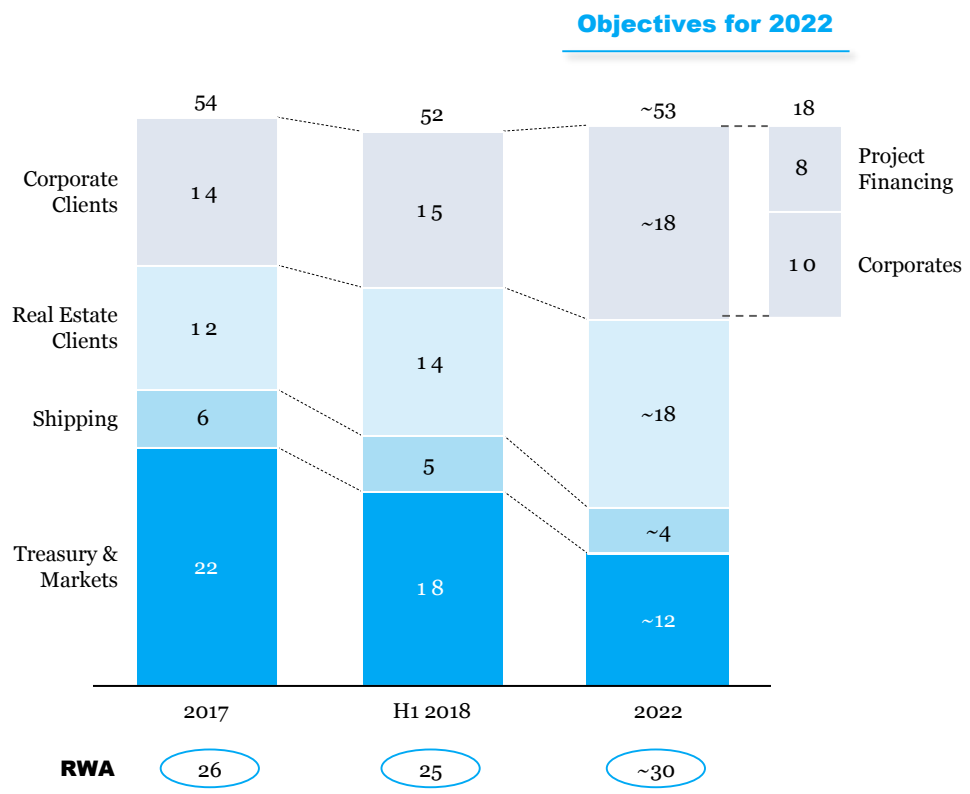
Excerpt from asset structure[1] – EaD by market departments

in EUR bn



Expansion in the Corporate Clients and Real Estate Clients segments

- New business in the Corporate Clients and Real Estate Clients segments will balance out the maturity profile of the existing portfolio and result in a stable balance sheet with an attractive yield profile

Risk-return profile in new business

- Focus on the quality of assets rather than on market shares will allow for targeted new business in the core markets based on strong existing business relationships
- Selective moves to step up international activities; numerous clients operate in selected countries – expand scope of business with these existing clients:
  - Energy and Utilities: Scandinavia, Ireland and the Netherlands
  - Real Estate Clients: Austria, Benelux, France and UK

Risk-conscious business expansion

- Risk profile very comfortable, slight RWA increase being driven by changes in the balance sheet structure (expansion of client lending business and optimisation of the liabilities structure at the same time)

[1]Rounding differences possible

On the way to becoming a sustainably competitive commercial Bank

Privatisation

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- **Reset & Go project** launched in early 2018 to identify and realise the Bank's potential
- Future client requirements and needs are being analysed, as are cross-Bank business models and the use of new IT solutions
- Strategic initiatives to strengthen sales capacity: Digitalisation, establishment of "Real Estate International", international expansion in project financing and the strengthening of sales capacity for corporates, as well as the expansion of Corporate Finance: Merger & Acquisitions (M&A), Leverage Buyout (LBO) and Capital Structuring

- **Digitalisation strategy** developed: Focus on client needs, products, automated processes and digital transformation
- Realignment to create an agile Bank involves: Strategy, technology, expertise and culture
- Offering clients speed, security and convenience
- Smart targeting of new clients
- Digitalisation of products and processes

- Targeted expansion of **Retail Funding** via external platform"Deposit Solutions" as the first milestone in the area of digitalisation
- Current portfolio of around EUR 2.9bn
- Improvement in liabilities and deposit structure achieved according to plan

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Agenda

1. Privatisation
2. H1 2018 IFRS Financial Key Figures
3. Outlook for 2018

Overall satisfactory development of core business segments

H1 2018 IFRS financial key figures

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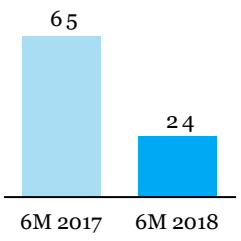
Corporate Clients

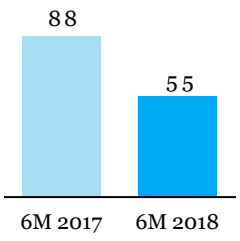
Net income b. taxes
in EUR mn



- Total income down in an environment that has remained highly competitive for years, net commission income below expectations accordingly
- Previous year characterised by positive valuation effects relating to client derivatives
- Loan loss provisions of EUR -4mn have a slight negative impact (PY: EUR 4mn)
- New business of EUR 1.2bn in accordance with market development

Real Estate Clients

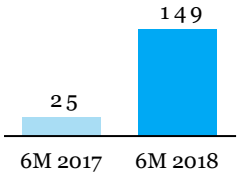
Net income b. taxes
in EUR mn



- Declining portfolio margins lead to slightly lower total income, new business margins are developing above plan
- Previous year characterised by positive valuation effects relating to client derivatives
- New business target of EUR 2.0bn achieved (PY: EUR 2.3bn)
- Continued positive development in the business with international institutional investors

Shipping

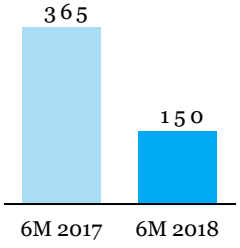
Net income b. taxes
in EUR mn



- Significant increase in earnings due to positive loan loss provisions through reversals of SLLP due to restructuring successes and reversals of GLLP
- Shipping market showing stabilisation tendencies in the container and bulker segments
- New business with national and international shipping companies with good credit ratings of EUR 0.3bn in line with both the plan and the previous year's level

Treasury & Markets

Net income b. taxes
in EUR mn



- Earnings contribution from operating business exceeds expectations
- Income from the sale of capital market products and the management of overall bank positions have a positive effect
- Decline in net income due to significantly lower income from the sale of securities realised in the previous year in order to partially compensate for the burdens resulting from legacy portfolios

Core Bank with good portfolio quality and NPE ratio of 2.0%

H1 2018 IFRS financial key figures

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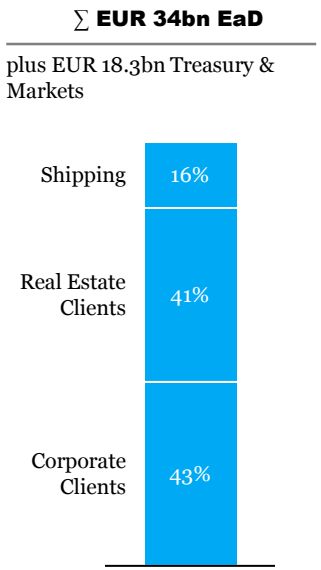
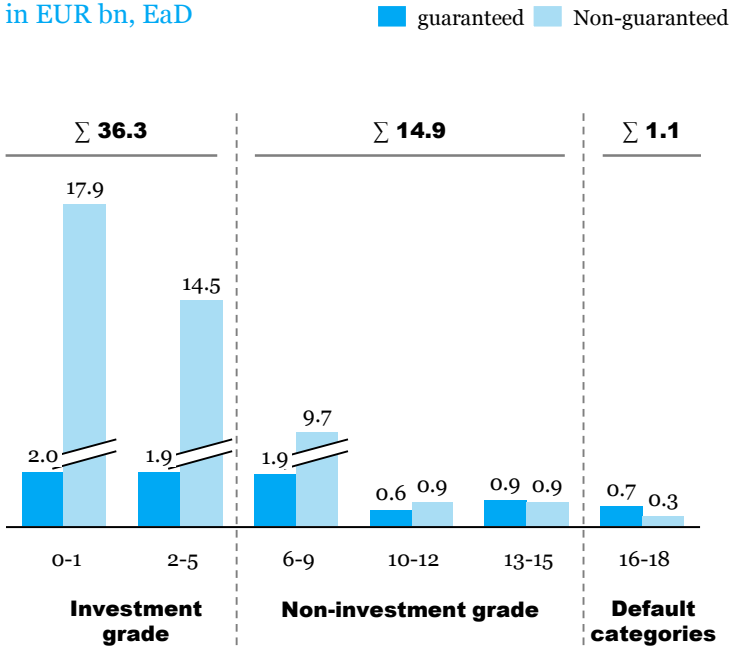
Client business portfolio



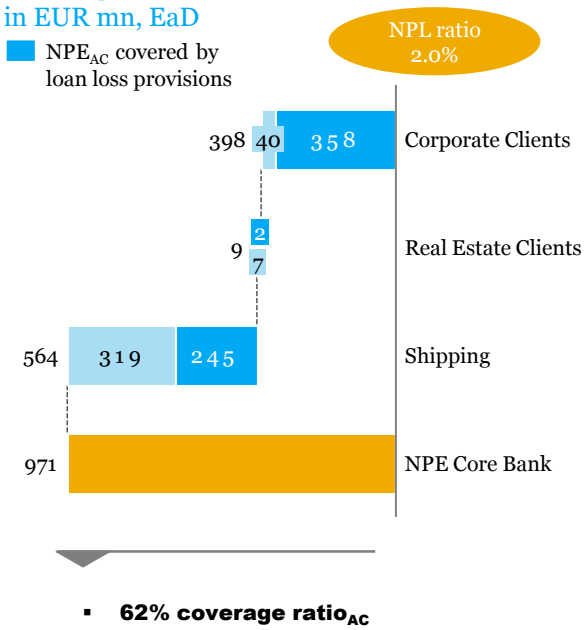
Core Bank portfolio by rating category[1]

in EUR bn, EaD



NPE_{AC} by market department[2]

in EUR mn, EaD



- Core Bank portfolio of EUR 52.3bn EaD[1] in total, of which EUR 36.3bn (69%) in investment grade and EUR 47.9bn (92%) in rating categories 0 to 9
- NPE volume of EUR 1,069mn (thereof NPE_{AC} of EUR 971mn) corresponds to an NPE ratio of 2.0%
- Shipping dominates NPE with a volume of EUR 564mn
- Increase in NPE among Corporate Clients due to individual commitments from the portfolio transfer from the Non-Core Bank
- Solid coverage $ratio_{AC}$[3] of 62% in the Core Bank, of 44% in Shipping and 90% in Corporate Clients (legacy Energy commitments)

[1] Incl. EUR 18.3bn EaD Treasury & Markets; [2] Rounding differences possible; [3] 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)

Core Bank contributes to Group result – early termination of the guarantee and privatisation with negative impact

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H1 2018 IFRS financial key figures

in EUR mn, IFRS	Core Bank		Other and Consolidation		Non-Core Bank		Group	
	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018
Net interest income	277	262	-28	-65	10	89	259	286
Net commission income	38	38	-17	-15	11	-	32	23
Result from hedging	-	-	-9	-2	-	-	-9	-2
Result from financial instruments categorised as FVPL[1]	93	67	26	-4	32	-104	151	-41
Net income from financial investments[2]	313	68	1	7	-3	-	311	75
Total income	**721**	**435**	**-27**	**-79**	**50**	**-15**	**744**	**341**
Loan loss provisions[3]	9	157	1	-81	-251	5	-241	81
Administrative expenses	-160	-156	9	2	-95	-69	-246	-223
Other operating result	8	9	11	7	43	7	62	23
Expenses for bank levy and deposit guarantee fund	-25	-26	-7	-7	-9	-1	-41	-34
Net income before restructuring and privatisation	**553**	**419**	**-13**	**-158**	**-262**	**-73**	**278**	**188**
Net income from restructuring and privatisation	-	-	-25	-31	-	-	-25	-31
Expenses for government guarantees	-10	-41	-	1	-70	-118	-80	-158
Net income before taxes	**543**	**378**	**-38**	**-188**	**-332**	**-191**	**173**	**-1**
Income tax expenses							-15	-76
Net income after taxes							**158**	**-77**

[1] In the previous year, under IAS 39, the item "net trading income"; [2] Incl. other income items; [3] Incl. hedging effect of credit derivative under the second loss guarantee

Moody's and Fitch predict better financial strength for future Bank

H1 2018 IFRS financial key figures

HSH NORDBANK

MOODY'S 07.02.2017 /16.03.2018

- "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"
- "The review for upgrade of HSH's b3 BCA reflects the potential for significant improvement in the bank's solvency profile, and reduced complexity and uncertainty about the bank's future direction, once the required approvals for the announced sale of the bank to a private-sector bidder group are obtained."
- "In our view, efficiency improvements will be paramount for the bank to effectively compete for new lending opportunities while operating with (initially) higher funding costs. We further believe that the bank's new ownership structure will give HSH access to additional process optimisation skills that will help it reposition its cost base."

FitchRatings 09.06.2017 / 09.03.2018

- "HSH's VR reflects progress in improving its risk profile in 2017 and Fitch Ratings' expectation that the agreed sale will allow the bank to continue operating as a commercial bank. We expect further positive VR momentum after the sale closes, reflecting improved asset quality if a removal of bad loans (mainly shipping non performing exposures, NPEs) from the bank proceeds as agreed, and a clearer business model and strategy. HSH's large, albeit declining, NPE ratio of 11.7% at end-3Q17 remains a negative VR driver."
- "We expect to upgrade HSH's VR after the successful privatisation of the bank, subject to receiving the necessary regulatory approvals, if the bank has demonstrated further progress in strengthening its balance sheet. We expect HSH's VR to remain constrained at or below 'bb+' until profitability has improved sustainably, following the privatisation and subject to the development of its business model."

	Moody's [1,2]	Fitch [1,3]
Bank ratings		
Deposit rating (long-term)	Baa3, RuR, upgrade	BBB-, RWN
Bank rating (long-term)	Baa3, RuR, upgrade	BBB-, RWN
Current liabilities	P-3, RuR, upgrade	F3, RWN
Financial Strength Rating (BCA) / Viability Rating (VR)	b3, RuR, upgrade	bb-, RWP
Issue ratings (secured)		
Public-sector Pfandbrief	Aa2, RuR, upgrade	-
Mortgage Pfandbrief	Aa3, RuR, upgrade	-
Ship Pfandbrief	Baa1, RuR, upgrade	-
Issue ratings (unsecured)		
"Preferred" Senior Unsecured debt	Baa3, RuR, upgrade	
"Non-Preferred" Senior Unsecured debt	Baa3, RuR, upgrade	BBB-, RWN
Subordinated liabilities (Tier 2)	B2, RuR, upgrade	

[1] See also latest publications by the rating agencies on the HSH Nordbank homepage: www.hsh-nordbank.de/de/investorrelations/rating/rating.jsp; [2] RuR: Rating under Review; [3] RWN/RWP: Rating Watch Negative / Rating Watch Positive

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Agenda

1. Privatisation
2. H1 2018 IFRS Financial Key Figures
3. Outlook for 2018

2018 characterised by closing and transformation, premature dissolution of guarantee has a negative impact

Outlook for 2018

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- **2018** will be a decisive year of transformation for the Bank. The closing of the transaction, which is expected to have been achieved by the end of 2018 at the latest, is a prerequisite for the comprehensive implementation of the transformation process that the Bank has already embarked upon, which will create a risk-optimised, agile and sustainable corporate structure. In the second half of the year, the Bank will, on the one hand, concentrate on its restructuring course and thus continue to lay the foundation for its successful privatisation and also for achieving the strategic vision for 2022. On the other hand, the Bank will continue to support the privatisation process to the best of its ability, helping to ensure that the process is completed as quickly as possible.

- The earnings forecast and future development of HSH Nordbank are associated with major challenges which are described in detail in the Group Management Report as at 31 December 2017. In summary, these relate primarily to resulting from adverse developments during the closing process associated with privatisation, as well as general challenges, such as possible macroeconomic setbacks in the sector developments that are relevant to the Bank.

- Taking into account the provision set up in the first half of the year for the compensation payment of EUR 100mn associated with the premature termination of the second loss guarantee, as well as the projected burdens resulting from the restructuring costs for 2018 as a whole, the Bank still expects to report a **pre-tax loss of around EUR 100mn (IFRS) as at 31 December 2018** despite virtually breaking even as at 30 June 2018. The net income forecast is subject to any unforeseeable effects resulting from the implementation of the closing conditions and the subsequent change of ownership

- The Bank is also confirming its previous forecast for the CET1 and NPE ratios. As a result, the CET1 ratio is expected to amount to around 15% and the NPE ratio to around 2% at the end of 2018, following the implementation of the portfolio transaction

The outlook and the assumption of the Bank as a going concern for accounting and measurement purposes are based on assumptions set out in the Annual Report as at 31 December 2017 and the Interim Report as at 30 June 2018

HSH NORDBANK

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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 in 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, the Core Bank and the Non-Core Bank, as well as information on the development expected for 2018 as a whole, is set out in HSH Nordbank's 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.