Investor Presentation

IFRS Group Result as at 30 September 2018

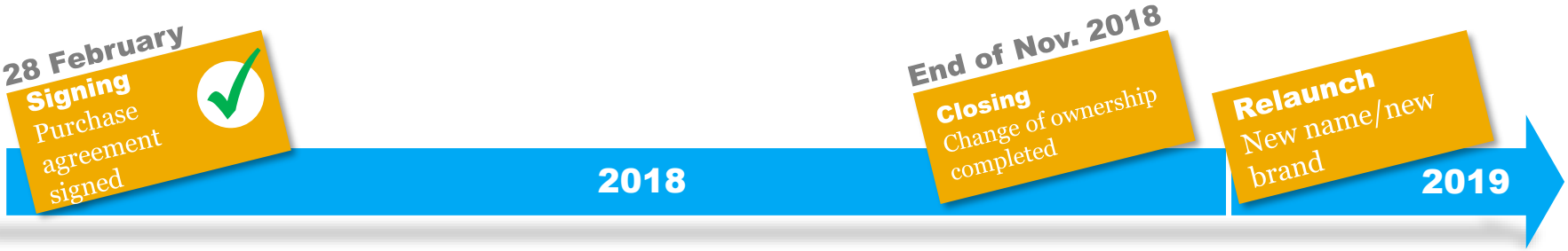
INVESTOR RELATIONS
HAMBURG, 16 NOVEMBER 2018

HSH
NORDBANK

Focus on closing – change of ownership expected at end of November

Privatisation

HSH NORDBANK



- **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 – HSH Finanzfonds AöR confirmation of full settlement of the second loss guarantee in the settlement report announced in June 2018
  - ✓ Seamless transition from the public sector to the private sector protection scheme - extension of the membership of the protection scheme of the German Savings Banks Finance Group (SFG) beyond the two years stipulated in the Articles of Association, namely for an additional third year; subsequent membership of the voluntary deposit protection scheme of the Federal Association of German Banks (BdB) also envisaged within this context
- **Remaining milestones**:
  - ☐ Approval - ECB, BaFin and CSSF
  - ☐ Viability review – European Commission

Intensive progress is being made with the transformation process in parallel

HSH NORDBANK

Agenda

1. 9M 2018 IFRS financial key figures
2. Outlook for 2018

HSH Nordbank AG - Overview of results for 9M 2018

9M 2018 IFRS financial key figures

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Group

EaD: EUR 59.6bn (31 Dec 2017: EUR 72.2bn)

Net income before taxes: EUR 8mn (PY: EUR 201mn)

CIR: 59.3%

NPE ratio: 4.5%/coverage ratio[1]: 50.9%

CET1 ratio[2]: 16.1%

Other and Consolidation as well as currently Non-Core Bank weighing on Core Bank's satisfactory income

Core Bank

- Future-oriented segments

Corporate Clients	Real Estate Clients	TXB[3]
EaD: EUR 14.7bn	EaD: EUR 13.9bn	
Shipping	**Treasury & Markets**	
EaD: EUR 5.2bn	EaD: EUR 17.7bn	

- Core Bank showed satisfactory development, with the operating performance of the segments, which was in line with the plan overall, contributing to this development
- Previous year's result characterised by comparatively high income from the sale of securities
- Positive loan loss provisions of EUR 136mn (PY: EUR -7mn) benefited from reversals, in particular successful restructuring in Shipping and development on the relevant markets that was encouraging overall

EaD: EUR 51.5bn
(31 Dec. 2017: EUR 53.7bn)

Net income before taxes: EUR 475mn
(PY: EUR 668mn)

Other and Consolidation

- Total Bank positions
- Transformation-related costs for liquidity building and structure
- Burdens from net income from restructuring of EUR -49mn (PY: EUR -43mn)
- Burdens from valuation and hedging effects
- EaD of EUR 6.6bn consists largely of the liquidity reserve

EaD: EUR 6.6bn
(31 Dec. 2017: EUR 8.7bn)

Net income before taxes: EUR -237mn
(PY: EUR -16mn)

Non-Core Bank

- Non-Core Bank exclusively comprises assets associated with the portfolio transaction
- Negative result is mainly due to guarantee charges (EUR -140mn) resulting from the premature termination of the guarantee
- Administrative expenses of EUR -100mn (PY: EUR -148mn)
- Group without Non-Core Bank after closing

EaD: EUR 1.5bn
(31 Dec. 2017: EUR 9.8bn)

Net income before taxes: EUR -230mn
(PY: EUR -451mn)

[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: 16.1% in-period and 16.0% not in-period (regulatory capital ratio pursuant to CRR); [3] Transaction Banking is not an independent segment

Satisfactory business development in the run-up to privatisation

9M 2018 IFRS financial key figures

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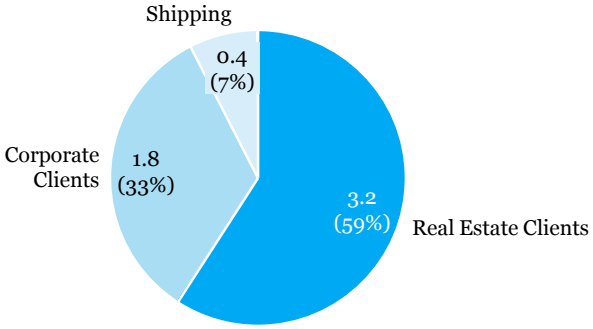
Core Bank

- Core Bank net income before taxes of EUR 475mn (PY: EUR 668mn)
- Total income of EUR 623mn (PY: EUR 945 mn, driven by high income from sale of securities)
- Gross new business incl. syndication of EUR 5.8bn, net new business of EUR 5.4bn (PY: EUR 6.4bn); selected according to stringent risk and return requirements and focusing primarily on profitability requirements
- Administrative expenses of EUR -232mn (PY: EUR -241mn) further reduced as expected, restructuring programme running according to plan
- NPE ratio: 2.4%

Net new business[1]: EUR 5.4bn

in EUR bn/%

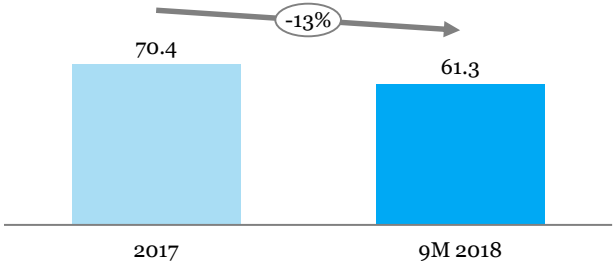


Group

- CET1 ratio[2] at a good level: 16.1% (31 Dec. 2017: 15.4%)
- RWA reduced to EUR 24.2bn (31 Dec. 2017: EUR 26.2bn)
- CIR: 59.3%
- NPE ratio: 4.5%
- Liquidity ratios: LCR 153%, NSFR 117%
- Leverage ratio: 8.1% (31 Dec. 2017: 7.7%)

Group total assets declined as planned

in EUR bn



[1] Rounding differences possible; [2] CET1 ratios: 16.1% in-period and 16.0% not in-period (regulatory capital ratio pursuant to CRR)

Development of core business segments in line with expectations

9M 2018 IFRS financial key figures

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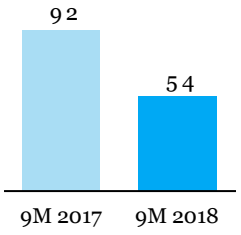
Corporate Clients

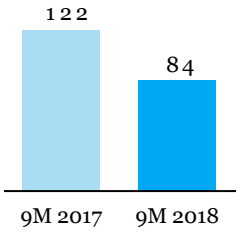
Net income b. taxes
in EUR mn



- 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
- Unplanned impairment losses affecting a few individual cases had a negative impact
- New business of EUR 1.8bn (PY: EUR 2.4bn) in line with the market environment

Real Estate Clients

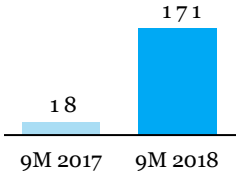
Net income b. taxes
in EUR mn



- Net income before taxes above plan, previous year impacted by valuation effects for customer derivatives; year-on-year decline driven by reduced portfolio margins; new business margins will lead forward looking to increasing total income
- New business of EUR 3.2bn (PY: EUR 3.4bn) meets expectations
- Continued positive development in the business with international institutional investors

Shipping

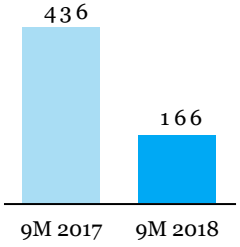
Net income b. taxes
in EUR mn



- Significant increase in earnings characterised by reversals of SLLP and GLLP thanks to general market recovery in sub-segments and successful restructuring measures
- New business with national and international shipping companies with good credit ratings of EUR 0.4bn on a par with the previous year and slightly below plan

Treasury & Markets

Net income b. taxes
in EUR mn



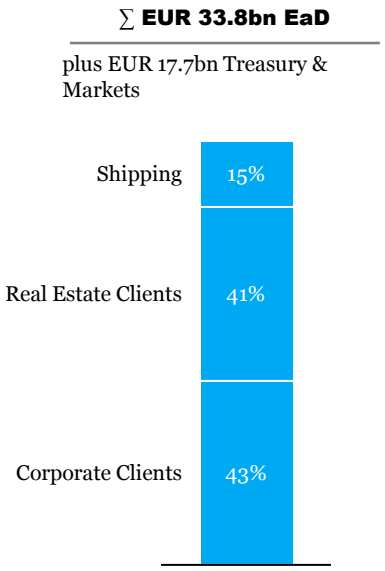
- Net income before taxes in line with expectations
- Income from the sale of capital market products and the management of overall Bank positions have a positive effect
- The reason for the decline in the net result lies in the special effects from the sale of securities in the previous year, a measure taken in order to partially compensate for the burdens from legacy portfolios

Core Bank with good portfolio quality and NPE ratio of 2.4%

9M 2018 IFRS financial key figures

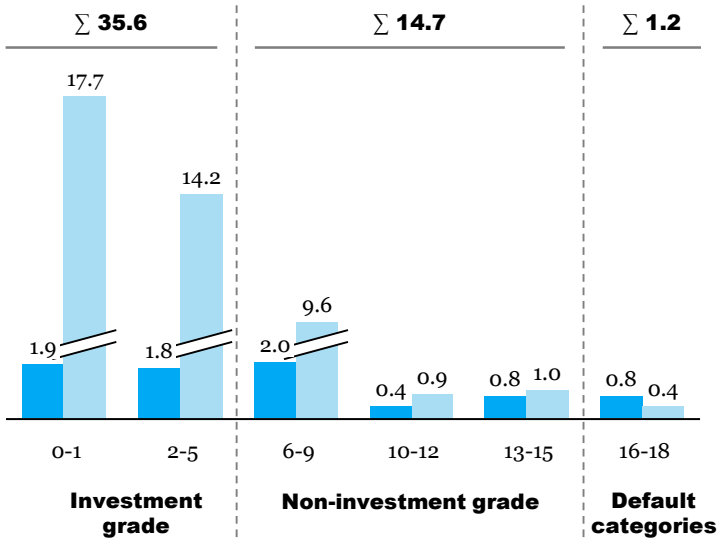
HSH NORDBANK

Client business portfolio[2]



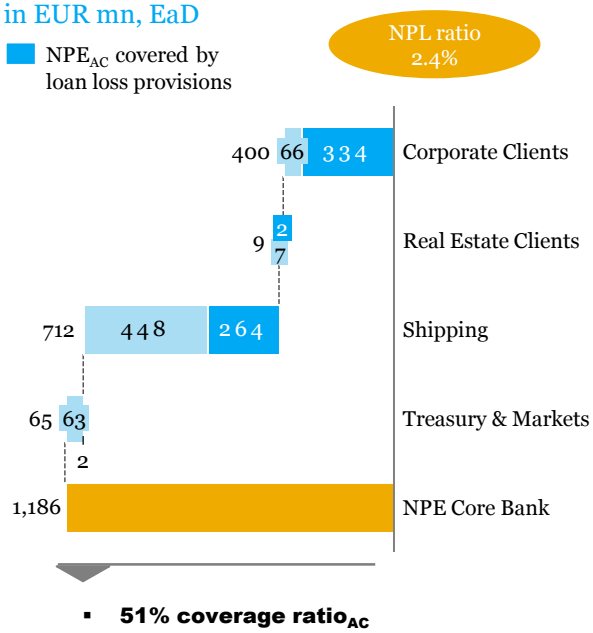
Core Bank portfolio by rating category[1]

in EUR bn, EaD



NPE_{AC} by customer department[2]

in EUR mn, EaD



- Core Bank portfolio of EUR 51.5bn EaD[1] in total, of which EUR 35.6bn (69%) in investment grade and EUR 47.2bn (92%) in rating categories 0 to 9
- NPE volume of EUR 1,213mn (thereof NPE_{AC} of EUR 1,186mn) corresponds to an NPE ratio of 2.4%
- Shipping dominates NPE_{AC} with a volume of EUR 712mn
- Increase in NPE for Corporate Clients due to a small number of individual commitments
- Solid coverage $ratio_{AC}$[3] of 51% in the Core Bank, 37% in Shipping and 84% in Corporate Clients

[1] Incl. EUR 17.7bn 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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9M 2018 IFRS financial key figures

in EUR mn, IFRS	Core Bank		Other and Consolidation		Non-Core Bank		Group	
	9M 2017	9M 2018	9M 2017	9M 2018	9M 2017	9M 2018	9M 2017	9M 2018
Net interest income	427	389	-58	-120	21	129	390	398
Net commission income	58	46	-25	-25	19	1	52	22
Result from hedging	-	-	-14	-8	-	-	-14	-8
Result from financial instruments categorised as FVPL[1]	111	120	13	1	35	-146	159	-25
Net income from financial investments[2]	349	68	65	33	-8	-	406	101
Total income	**945**	**623**	**-19**	**-119**	**67**	**-16**	**993**	**488**
Loan loss provisions[3]	-7	136	3	-82	-318	6	-322	60
Administrative expenses	-241	-232	23	13	-148	-100	-366	-319
Other operating result	12	22	26	6	58	22	96	50
Expenses for bank levy and deposit guarantee fund	-25	-26	-7	-6	-9	-2	-41	-34
Net income before restructuring and privatisation	**684**	**523**	**26**	**-188**	**-350**	**-90**	**360**	**245**
Net income from restructuring and privatisation	-	-	-43	-49	-	-	-43	-49
Expenses for government guarantees	-16	-48	1	-	-101	-140	-116	-188
Net income before taxes	**668**	**475**	**-16**	**-237**	**-451**	**-230**	**201**	**8**
Income tax expense							-25	-110
Net income after taxes							**176**	**-102**

[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

9M 2018 IFRS financial key figures

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MOODY'S 16.03.2018 / 7.11.2018

- "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."
- "On 5 November, the Association of German Banks accepted German Landesbank HSH Nordbank AG as a junior member as of 1 January 2019. The decision paves the way for closing HSH's privatisation before year-end 2018, a credit positive that we expect will significantly improve HSH's standalone credit strength."

FitchRatings 9.06.2017 / 9.03.2018

- "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]
Issuer ratings		
Deposit Rating	Baa3, RuR, upgrade	BBB-, RWN
Issuer Credit Rating (long-term)	Baa3, RuR, upgrade	BBB-, RWN
Short-term Debt	P-3, RuR, upgrade	F-3, RWN
Stand-alone Rating (financial strength)	b3, RuR, upgrade	bb-, RWP
Instrument ratings (secured issuances)		
Public-sector Covered Bonds	Aa2, RuR, upgrade	-
Mortgage Covered Bonds	Aa3, RuR, upgrade	-
Ship Covered Bonds	Baa1, RuR, upgrade	-
Instrument ratings (unsecured issuances)		
"Preferred" Senior Unsecured Debt	Baa3, RuR, upgrade	
"Non-Preferred" Senior Unsecured Debt	Baa3, RuR, upgrade	BBB-, RWN
Subordinated Debt (Tier 2)	B2, RuR, upgrade	

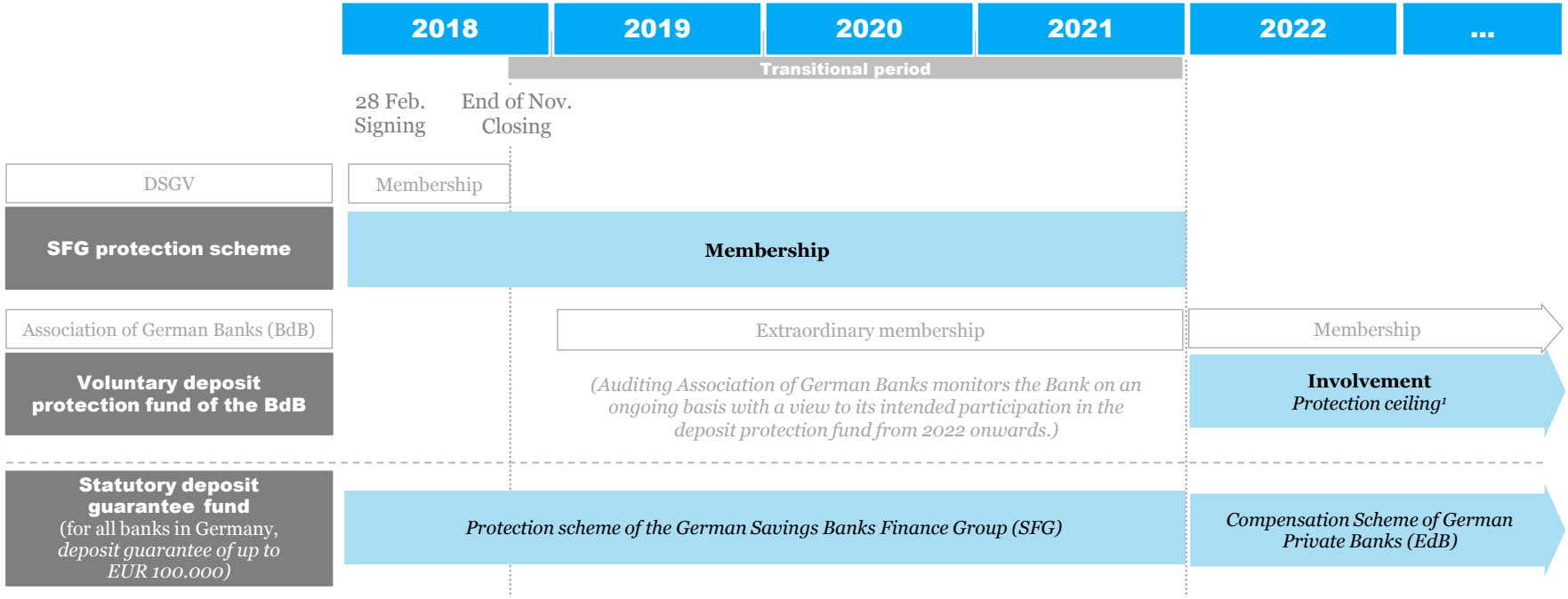
[1] See also latest publications by the rating agencies on the HSH Nordbank homepage: www.hsh-nordbank.de/de/investorrelations/rating/rating.jsp; [2] RuR: Rating under Review; [3] RWN/RWP: Rating Watch Negative / Rating Watch Positive

Seamless transition from the protection scheme of the SFG to the BdB agreed

Privatisation – Closing

HSH NORDBANK

Subject to closing by end of November



- HSH Nordbank's membership of the DSGV will expire upon closing. However, membership of the SFG guarantee scheme (pursuant to Section 94 (4a) of the Framework Statutes) will continue for a further three years until 31 December 2021, meaning that the voluntary institutional protection provided for HSH Nordbank by SFG's protection scheme will remain in force until 31 December 2021.
- The plan is for a seamless transition from the SFG protection scheme to the BdB's voluntary deposit protection fund at the turn of the year 2021/2022. As with all banks, the protection ceiling will then generally be 15 percent of HSH Nordbank's regulatory capital per creditor.
- The scope of protection of the statutory deposit guarantee fund will remain unchanged with the transition from the SFG protection scheme to the EdB.

[1] In 2022, the statutory protection ceiling will correspond to 15% of the member bank's regulatory capital per creditor. As at 31 August 2018, HSH Nordbank had around EUR 6.5bn in regulatory capital, which corresponds to an arithmetical statutory protection ceiling of around EUR 0.975bn per creditor. From 2025, the statutory protection ceiling for all member banks will be reduced to 8.75% per creditor.

Association | Protection scheme

HSH NORDBANK

Agenda

1. 9M 2018 IFRS financial key figures
2. Outlook for 2018

2018 characterised by closing and transformation, early termination of guarantee has a negative impact

Outlook for 2018

HSH NORDBANK

- The privatisation process envisaged by the Bank is nearing completion. The Bank expects that the change of ownership, the portfolio transaction agreed as part of the privatisation process and the termination of the second loss guarantee will have been finalised by the end of November. This will signal the end, for the Bank, of the EU state aid proceedings, which have spanned a period of several years and achieved significant structural relief. At the same time, the successful closing will create the necessary conditions for the Bank's further transformation into an agile corporate structure that is competitive in the long run. In this respect, the Bank will be focusing on the process of realignment that it has embarked upon over the coming months, and will forge ahead intensively with the measures to boost efficiency and earnings. The Bank is pursuing a consistent restructuring policy based on its strategic target of a return on equity of at least 8 % before tax, a cost-income ratio of a maximum of 40%, a CET1 ratio of at least 15% and an NPE ratio of no more than 2%

- 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

- On the basis of the satisfactory business development in the reporting period, the Bank is confident that it will be able to achieve its operational objectives **for 2018 as a whole**. In this respect, the Bank expects further effects to arise after the closing in connection with the privatisation process and the ongoing transformation process, especially additional restructuring expenses, which, together with the provision set up for the guarantee compensation payment in the amount of EUR -100mn in the first half of 2018, will lead to a **loss before taxes of around EUR 100mn (IFRS) as at 31 December 2018, as has already been forecast.** Furthermore, the Bank is also confirming the negative earnings forecast it published in the 2017 annual financial statements in accordance with the German Commercial Code (HGB), and therefore expects that the HGB loss will be significantly higher than the loss reported in the Group in accordance with IFRS, in particular due to accounting-related measurement differences

- This earnings forecast is subject to any effects from the imminent change of ownership and potential capitalisation measures relating to the hybrid capital instruments, which the Bank is preparing for in accordance with the notification published on 6 November 2018

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 Financial Information as at 30 September 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, Core Bank and Non-Core Bank as well as information on the expected trend for the whole of 2018 is set out in the "Management System" subsection in the "Basis of the Group" section and in the "Forecast, Opportunities and Risks Report" section in HSH Nordbank's Group Management Report for the 2017 financial year.