

Press Release

HSH Nordbank adopts programme for the future

- **Further development of the business model approved: Core Bank is to become “Bank for entrepreneurs”**
- **Implementation of EU requirements initiated**
- **To meet EU conditions staff needs to be further reduced to 2,120 employees until 2014**
- **Group net income increased significantly in the first half of the year**
- **Group net loss for 2011 expected due to extraordinary payment of EUR 500 million to guarantors**
- **Guarantors will pay back the one-off payment to the Bank in the form of an increase in capital**

Hamburg/Kiel, 25 August 2011 – At its meeting today the Supervisory Board of HSH Nordbank adopted a comprehensive strategy and transformation programme presented by the Management Board to further develop the Bank on the basis of the requirements laid down by EU Competition Commissioner Joaquín Almunia in July. This creates the prerequisites for the Bank’s long-term future success. The core of the new concept is the transformation of HSH Nordbank into a focussed, strong sales & distribution “Bank for entrepreneurs” with a medium-sized structure. In future, starting from its regional base HSH Nordbank will be concentrating on its role as a partner for businesses and entrepreneurs which also includes its international specialist skills in the shipping as well as in the energy & infrastructure sectors. Together with the regionally focussed areas of corporate clients, real estate clients, private banking and savings banks – these activities form the future Core Bank, the “New HSH Nordbank”. By contrast, the Bank will be giving up the areas of asset-based aviation finance and real estate finance outside Germany.

“Our new business concept fulfils the extensive conditions set by the EU Commission in the state aid proceedings. At the same time, given the underlying conditions we are ensuring that we have the maximum scope for action while setting the Core Bank on a sound and sustainable basis as the ‘New HSH Nordbank’. We are firmly convinced that as a leading commercial bank with a medium-sized structure for corporate mid-caps in the North, i.e. with short communication channels and rapid decision-making, the Core Bank has ideal prospects for becoming an attractive alternative to its

competitors and a long-term success story,” said Paul Lerbinger, Chairman of the Management Board of HSH Nordbank.

Supervisory Board accepts expected EU requirements

The "Initiative: Future!" transformation programme presented to the Supervisory Board contains a wide range of initiatives aimed at strengthening selling power, honing business area strategies and optimising the business model as well as further improvements in the field of funding and bank management. This package of measures is supported by the implementation of the new concept “Bank for entrepreneurs”, which increasingly positions HSH Nordbank as the preferred partner and principal bank for businesses and entrepreneurs in all areas relating to finance in the coming years.

The Management Board had initiated the transformation process in response to the breakthrough achieved in the EU state aid proceedings at the beginning of July this year. Now the implementation can commence. It is due to be completed until 2014.

With this in mind the Supervisory Board agreed to the undertakings by the Bank required by the EU Commission. In doing so, HSH Nordbank for its part has created the prerequisite for a final decision by the EU Commission. This is expected in the second half of September at the earliest. Subject to the formal decision by the EU Commission, the Supervisory Board has approved the following key points for the future alignment of HSH Nordbank based on the undertakings given to the EU Commission:

- The total assets of the Core Bank will be limited to EUR 82 billion by the end 2014.
- The total assets of the Restructuring Unit, which contains all portfolios and activities no longer forming part of the Bank’s core business, will be wound down to EUR 38 billion by the end of 2014.
- Asset-based aviation finance is to be given up.
- Real estate finance outside Germany is to be discontinued.
- Segment assets in the Shipping business unit in the Core Bank will be reduced to around EUR 15 billion by the end of 2014.
- In addition to those locations already announced, the Bank will be closing its branches in Amsterdam, Paris und Shanghai and spinning off further non-strategic equity holdings.

“The undertakings required by the EU Commission will have a huge impact on our business and represent a major entrepreneurial challenge. The required size of the Bank is a good quarter smaller than originally planned in 2009. This means that the Bank’s earnings basis will shrink to a correspondingly drastic degree. At the same time we had to promise the EU Commission that we would not grow significantly in the Bank’s core areas of business in the foreseeable future. In other words, under the new underlying conditions our cost base is much too high, with the result that cost cuts and thus also job cuts are inevitable,” explained Paul Lerbinger.

The concept approved by representatives of the employees and employers on the Supervisory Board entails reducing administrative expenses by around 30 percent, to EUR 620 million, until 2014.

Against this backdrop an additional 900 full-time positions will be shed in addition to the already planned job cuts. Altogether the number of full-time employees is to fall from currently 3,313 to about 2,120. In relative terms, the foreign locations and subsidiaries of the Bank will be most severely affected by the planned job cuts. In relation to their staff numbers the headquarters in Hamburg und Kiel will be almost equally affected by job cuts. The Management Board has informed the general works council of HSH Nordbank of the Supervisory Board’s decision and will shortly commence negotiations regarding the job cuts.

“I am aware of the drastic nature of these measures and their importance to all employees affected. However, it is our entrepreneurial responsibility to make HSH Nordbank fit for the future and able to generate solid earnings within the parameters set by the EU Commission – in order to meet the objective of safeguarding the remaining jobs over the long term. Together with my colleagues on the Management Board I shall make every effort to structure the unavoidable reduction of our staff on the basis of a constructive dialogue with the employee representatives and in a fair and socially responsible manner,” Paul Lerbinger stressed.

In addition to this, at its meeting today the Supervisory Board agreed to the implementation by the Management Board of the expected further requirements of the EU Commission with the aim of paying adequate compensation (claw back) in the Commission’s view for the state aid received and of contributing to burden sharing among the shareholders.

The Bank expects that the EU Commission will consider inadequate the current compensation payment obligation of 400 basis points for the second loss guarantee provided by the states of Hamburg and Schleswig-Holstein and therefore will in its final decision require an additional compensation payment. As a matter of precaution, the Bank has in its financial plans taken into account as a possible impact of the EU conditions a payment of EUR 500 million and expects no dividends to be paid to its shareholders up to and including fiscal 2014. The planning further assumes that the states of Hamburg and Schleswig-Holstein will have to contribute their claim for the one-off payment to the Bank in a capital increase by way of contribution in kind, which will likely not become effective in the financial year 2011

“The forthcoming EU decision finally gives the Bank the secure legal foundation we need to develop viable prospects for the future. HSH Nordbank is fundamentally strong enough to master the challenge presented by the EU conditions,” added Paul Lerbinger.

Net income in the first half of 2011 above budget

In spite of the progress made in reducing total assets, HSH Nordbank has further improved its net income situation so far this year and closed the first half of 2011 with a substantial net income. Whereas in the same period of the previous year the Bank still posted a net loss of EUR 380 million, in the first six months of 2011 it generated Group net income after taxes of EUR 338 million. Net income before restructuring came to EUR 697 million in the first half of this year, also a considerable improvement on the same period of the previous year (previous year: EUR -110 million).

HSH Nordbank's business performance benefited from the continued economic upturn with the resulting improved setting in many markets that are important for the Bank. This trend together with the wind-down of its portfolio, which was also resolutely continued in the first half of the year, made it possible to reverse some of the loan loss provisions. As a result of this the Bank generated earnings of EUR 271 million following expenses of EUR -649 million in the same period of the previous year. In addition, net income from financial investments that increased to EUR 164 million (previous year: EUR 114 million) and a net trading income which was almost balanced (30 June 2011: EUR 1 million; previous year: EUR -36 million) contributed to the positive result.

Reducing costs and the continued reduction of government guarantees provided relief on the overall result. Administrative expenses decreased to EUR -382 million (previous year: EUR -402 million). Thanks to the repayment of SoFFin-guaranteed bonds amounting to EUR 8 billion and the reduction of the second loss guarantee from the states of Hamburg and Schleswig-Holstein by EUR 2 billion, expenses for government guarantees decreased in the first half of 2011 to EUR -211 million (previous year: EUR -303 million).

Total assets were cut by EUR 44 billion, or around one quarter, compared to 30 June 2010, to EUR 132 billion (31 December 2010: EUR 151 billion). This development benefited from the continued strengthening of the euro against the US dollar. The reduction of total assets also led to an increase in the Tier 1 capital ratio to 18.0 percent (31 December 2010: 15.4 percent).

“The Bank is on the right track. In the first half of this year we further reduced our risk positions and started to expand our new business. The Bank’s net income improved more than budgeted also thanks to the successful restructuring measures implemented over the past few years. Our solid capital resources now give us the possibility of gradually freeing ourselves from government support measures”, said Paul Lerbinger. The Bank’s budget therefore provides for a reduction of the guarantee by a further EUR 1 billion in the second half of 2011. As a result the Bank’s annual expenditure on guarantees would decrease by around EUR 40 million more.

2011 Group result negatively affected by EU requirements and planned job cuts

HSH Nordbank’s half-year result does not yet include the charges resulting from implementation of the EU requirements. According to Management Board plans, these are to be absorbed with an impact on earnings to a large extent already in the second half of 2011. In addition to this, substantial expenses in the double-digit million range will be incurred this year for the planned job shedding. The Bank also expects to incur restructuring expenses in the two subsequent years. Against the backdrop of these burdens, HSH Nordbank expects to post a Group net loss for fiscal year 2011.

“The Management Board has already initiated the principal steps to rapidly implement the undertakings given to the EU Commission and expected requirements. For HSH Nordbank the year 2011 marks the beginning of the transformation phase in which we will be repositioning the Core Bank as an efficient and viable company, fit for

the future. With lean structures we will become a leading commercial bank for businesses and entrepreneurs - dynamic, profitable and oriented to the needs of our clients,” said Paul Lerbinger, summing up the situation.

Income statement in EUR millions	H1 2011	H1 2010	Change in %
Net interest income	635	802	-21
Net commission income	61	94	-35
Result from hedging	-10	3	>-100
Net trading income	1	-36	>100
Net income from financial investments	164	114	44
Net income from investments accounted for under the equity method	-56	-	-
Total income	795	977	-19
Loan loss provisions	271	-649	>-100
Administrative expenses	-382	-402	-5
Other operating result	13	-36	>100
Net income before restructuring	697	-110	>100
Result from restructuring	2	-14	>100
Expenses for government guarantees	-211	-303	-30
Net income before taxes	488	-427	>100
Income tax expense (-)/income (+)	-150	47	>100
Group net income/loss	338	-380	>100
Group net income attributable to non-controlling interests	1	20	-95
Group net income/loss attributable to HSH Nordbank shareholders	337	-400	>100

Other key figures	30/6/2011	31/12/2010
Total assets (EUR billion)	132	151
Tier 1 core capital ratio* (%)	18.0	15.4
Regulatory capital ratio* (%)	27.1	22.4
Employees**	3,313	3,388

* Including market risk positions

**Full-time positions

Contact:

HSH Nordbank AG
Rune Hoffmann
Head of Media Relations
Phone +49 40 3333 11412
Fax +49 40 3333 611412
Email: rune.hoffmann@hsh-nordbank.com

HSH Nordbank AG
Peter Mentner
Head of Corporate Communications
Phone +49 40 3333 12972
Fax +49 40 3333 612972
Email: peter.mentner@hsh-nordbank.com
www.hsh-nordbank.com