Results from the comprehensive assessment

HSH NORDBANK AG

HAMBURG 26 OCTOBER 2014

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Agenda

1. **Summary**
2. Concept / background to comprehensive assessment
3. Asset quality review
4. Stress test

Summary

HSH Nordbank meets requirements in both AQR and stress test; capital ratios substantially above required minimum levels

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Summary of the results

- **HSH Nordbank was well-prepared for the comprehensive assessment**
  - CET1 ratio of 13.1% incl. 3.1% buffer from additional premium as at 31.12.2013 as the starting point
  - Re-increase of the guarantee from EUR 7 bn back to EUR 10 bn in mid-2013 – fully accepted by both, the ECB and EBA
  - Consistent reduction of legacy assets
  - Adequate loan loss provisioning

- **ARQ confirms solid capitalisation** of HSH Nordbank
  - **CA CET1 ratio pursuant to AQR of 10.0%**, plus 2.3% buffer from additional premium
  - Result substantially above the required minimum level of 8.0%
  - Guarantee fully effective

- **Stress test after "join-up" confirms solid capitalisation** of HSH Nordbank
  - **9.4% CA CET1 ratio in the baseline scenario**
  - **6.1% CA CET1 ratio in the adverse scenario**

- Substantial reduction in legacy assets and further improvement in return/risk profile of the Core Bank since the starting point of end-2013 are not taken into account in the stress test (until 2016) due to the static balance sheet approach

- Reflecting **Basel III provisions** and thus rising requirements (phase-in)

Comprehensive assessment, particularly AQR, is a regulatory valuation and does not have an imminent material accounting impact pursuant to IFRS from today's perspective

AQR confirms solid accounting of HSH Nordbank; even in the adverse scenario of the stress test CA CET1 ratio of 6.1% substantially above required minimum level

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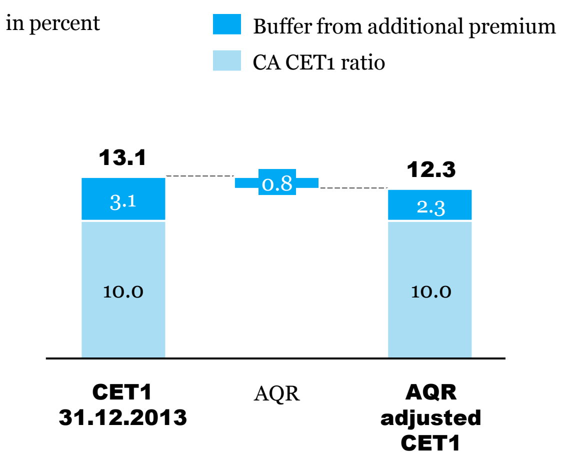
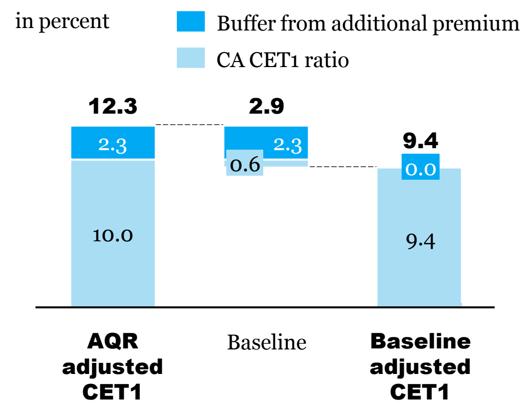
AQR (regulatory valuation)



- **CA CET1 ratio pursuant to AQR of 10.0%,** plus 2.3% buffer from additional premium **virtually unchanged,** substantially above the required 8%
- **Loan/collateral values subject to substantial prudential haircuts:**
  - Shipping -18%
  - Int. real estate -10%
- **Regulatory charges** of approx. **EUR 1.6 bn** largely covered by guarantee, with only a minor impact on the additional buffer

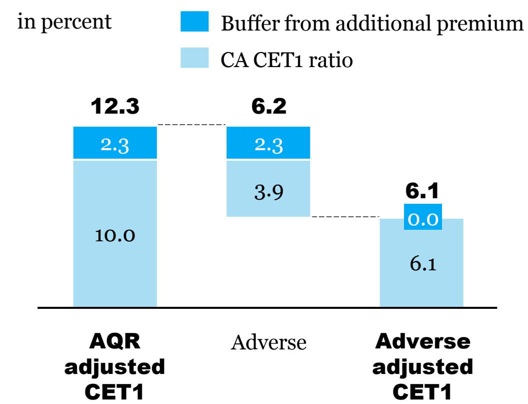
Stress test (after join-up)

Baseline



- **CA CET1 ratio of 9.4%** in the **baseline scenario** above the required minimum level of 8.0%
- **Material stress effects:**
  - Net trading income
  - Loan loss provisions

Adverse



- **CA CET1 ratio of 6.1% in the adverse scenario** above the 5.5% minimum level confirms strong resilience
- **Material stress effects:**
  - Net interest income
  - Net trading income
  - Loan loss provisions and RWA
  - High guarantee fees due to static balance sheet approach

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Comprehensive assessment is an extensive health check of banks prior to the start of the Single Supervisory Mechanism (SSM)

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Comprehensive assessment process

- In Q4 2013 the European Central Bank (EZB) in cooperation with the European Banking Authority (EBA) and the National Competent Authorities started the EU-wide **comprehensive assessment (CA),** which is designed as preparation for joint European banking supervision
- The assessment covered **130 banks in the eurozone, including 24 German banks**
- The ECB's **asset quality review (AQR)** began in February 2014 and is aimed to create transparency regarding the quality of assets of participating banks by means of an extensive balance sheet health check; to pass, banks had to have a minimum CA CET1 ratio of 8%
- The AQR results will be **joined up** with the EBA's stress test and lead to the final CA results
- The **stress test** models the financial years 2014 to 2016 based on the assumption of a static balance sheet
  - In the **baseline scenario** and in the asset quality review the banks needed to achieve a CA CET1 ratio of at least 8%
  - In the **adverse scenario** a minimum CA CET1 ratio of 5.5% is to be met
  - Should capital shortfalls be identified in the CA, these must be closed within specified periods

Timetable for capital shortfalls to be closed

Publication CA result	+ 2 weeks	+ 6 months	+ 9 months
Publication of individual bank results	Banks with a capital requirement from the CA must submit a detailed capital plan	Capital plans of banks with a capital requirement from the AQR or the baseline stress test scenario must be implemented within six months	The capital plans of banks with a capital requirement from the adverse stress test scenario must be implemented within nine months

Stress test: Adverse scenario puts pressure particularly on banks with a high portfolio share in international business

Macroeconomic scenarios

Systemic risks

- **Increased bond yields**
- **Decline in sovereign ratings**
- **Failure by banks to implement balance sheet enhancements**
- **Delays in political reforms**

- Financial market turbulence
- Global slump in growth
- Decline in foreign trade

Microeconomic scenarios

Credit risk	Stressed PD and LGD, potential rating migration and increase in risk weighted assets
Market risk	Bank-specific reduction of non-trading income or revaluation on the basis of market risk parameters, CVA haircuts, default of major counterparties (except sovereigns)
Securitisation deals	RWA increase dependent on risk profile, impairments, partly in line with market risk
Government bonds	Changes in market prices, impairments based on rating migration (pre-stipulated)
Funding	Sensitivity analysis for deterioration of funding on the capital market and via retail (bank's own assumptions with restrictions)
Others	Market developments for selected asset classes (shipping, real estate), forecasts impairment, assumptions for other income, costs

Static balance sheet approach in contrast to the consistent reduction in legacy assets and further improvement in the return/risk profile from new business

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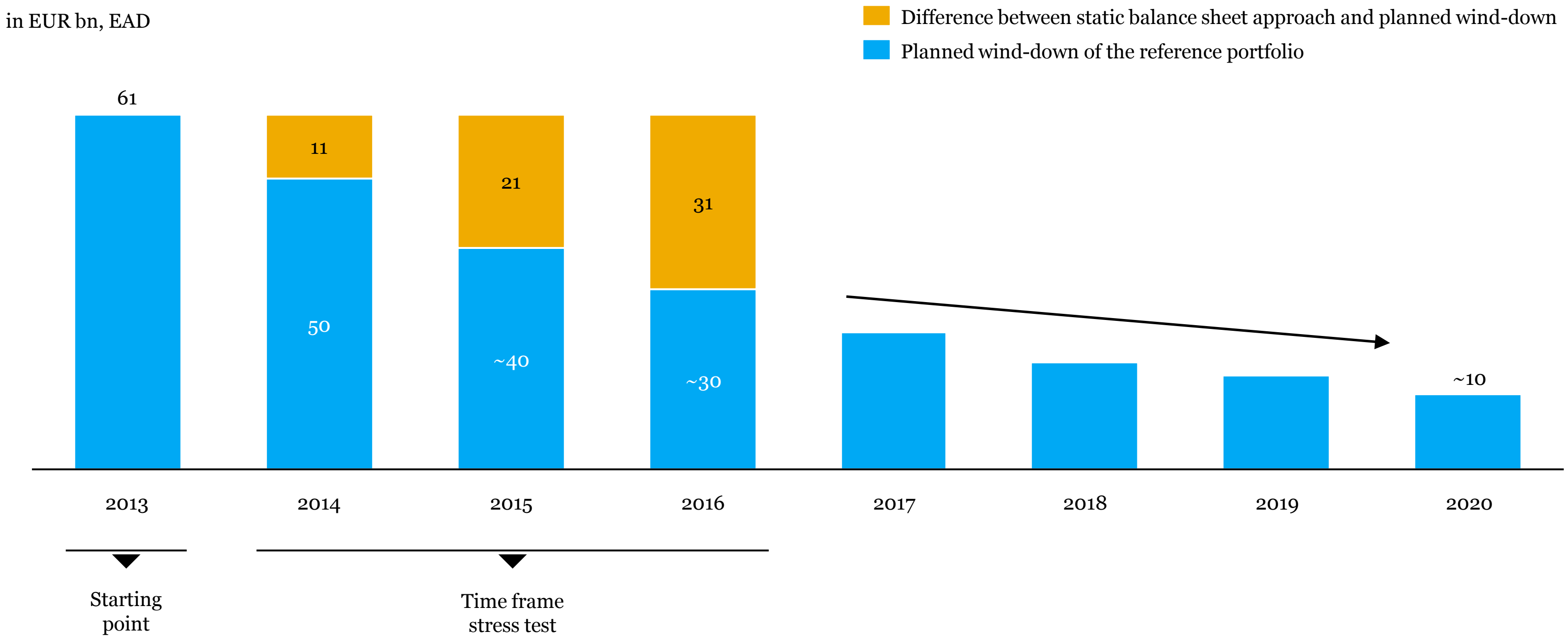
Static balance sheet approach vs. reduction in legacy assets

Planned reduction in legacy assets from the reference portfolio covered by the guarantee



- **Dynamic balance sheet approach would have been more beneficial to HSH Nordbank**, but it could only have been applied on the basis of a finally approved restructuring plan

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Review of 75% of the HSH Nordbank corporate client portfolio, including an almost full check of shipping and real estate international

Corporate client portfolio

A Credit file review & collateral valuation

- Reclassification of loans: Performing exposure (PE) to non-performing-exposure (NPE)
- Revaluation of collateral and adjustment of loan loss provisions
- Adjustment of loan loss provisions for existing NPE

B Projection of findings

- Projection on the parts of the portfolio that were not examined

C Collective provisioning

- Application of challenger model to entire loan loss provisioning

Other exposures

D Level 3 fair value exposure review

- Revaluation of model based valuated level 3 assets (for which no market values available)

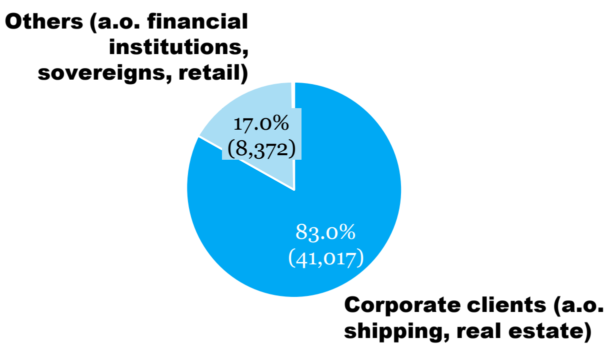
E CVA on derivatives

- Challenger model to check total value of CVA-portfolio

Selected data basis - extensive examination

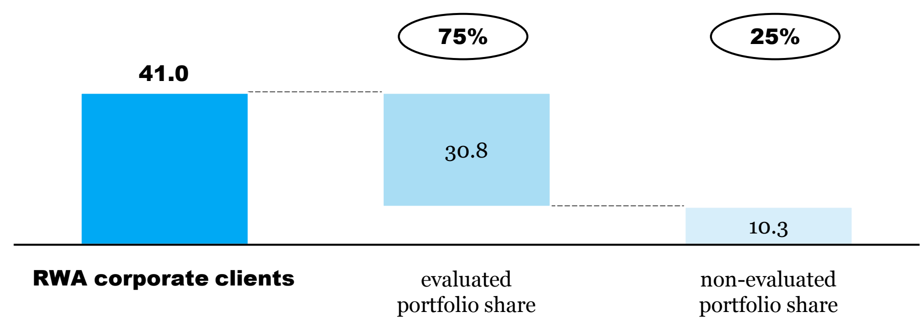
Total RWA EUR 49.4 bn

in % / EUR mn, RWA



Pro-rata examination of the corporate clients portfolio

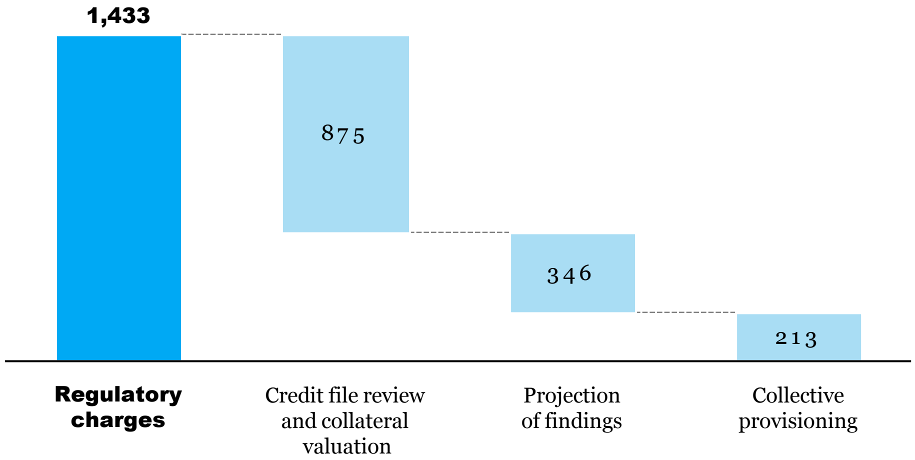
in EUR bn, RWA



Regulatory, non-IFRS complient adjustments totalling EUR 1.6 bn, which have been largely compensated by the guarantee

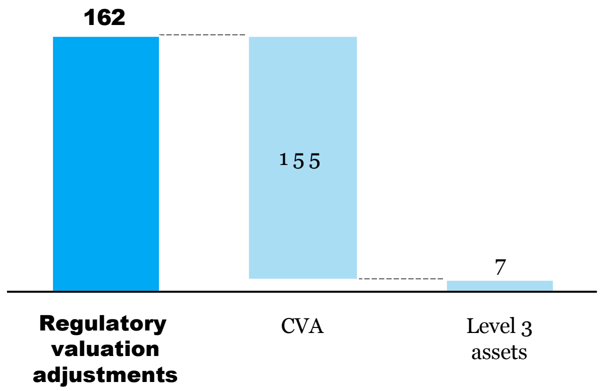
Regulatory charges

in EUR mn



Regulatory valuation adjustments

in EUR mn



- **Regulatory charges** of **EUR 1.4 bn** in the corporate client portfolio, including prudential haircuts:
  - Shipping -18%
  - Real estate international-10%
- **Mainly regulatory valuation adjustments amounting to EUR 162 mn,** especially credit value adjustments (CVA) for derivatives in client business (EUR 155 mn)

Asset quality review

Small increase in the regulatory non-performing exposure (NPE) and in the coverage ratio for the purposes of the AQR confirm HSH Nordbank's solid valuations

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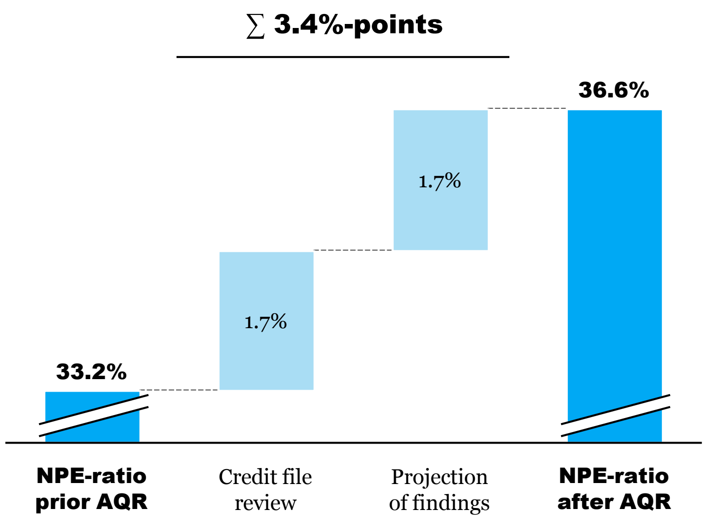
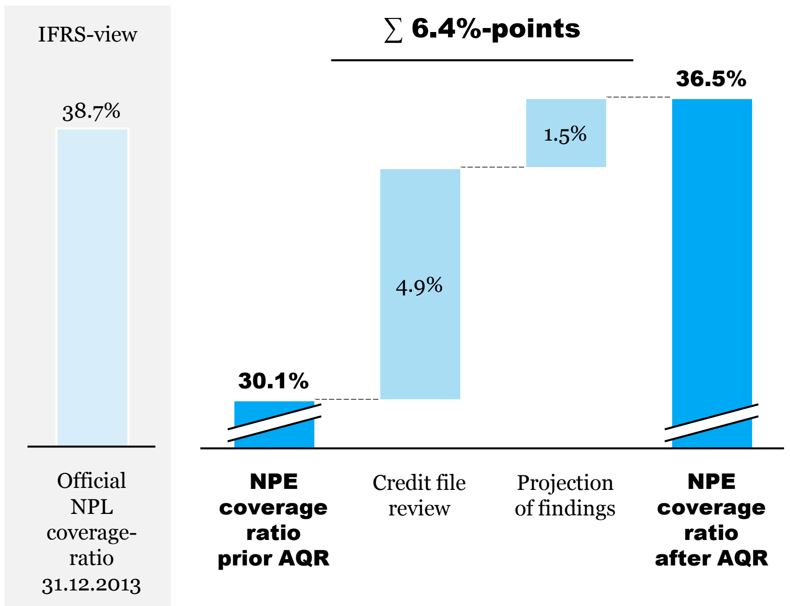
Adjustments NPE-ratio



- **In comparison to non-performing-loans in accordance to IFRS, the NPE of the AQR includes** alongside client receivables **also irrevocable commitments, loans to banks and securities exposures**
- **Adjustments** result mainly from **stricter default assumptions in the AQR**

Adjustments NPE coverage ratio



- **Increase in NPE coverage ratio** results among others from **prudential haircuts on loan and collateral values**
- Coverage ratios before collateral values and cash-flows
- **NPE covered by the guarantee of approx. 90%**

Regulatory adjustments of EUR 1.6 bn are largely compensated by the guarantee and capital burdens correspondingly reduced

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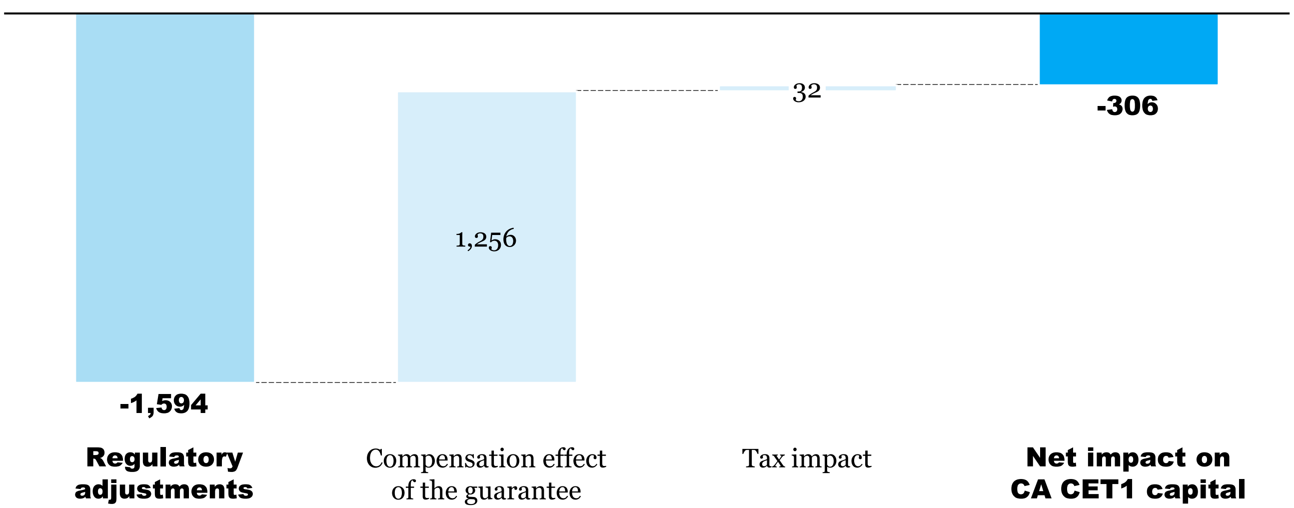
Guarantee effect

in EUR mn



- **Guarantee effect provides substantial capital relief**
- **Capital burdens increased theoretically by EUR 1.6 bn** due to mainly regulatory adjustments, however reduced by EUR 1.3 bn due to the compensation effect of the guarantee
- **Net impact on CA CET1 capital of EUR -306 mn**

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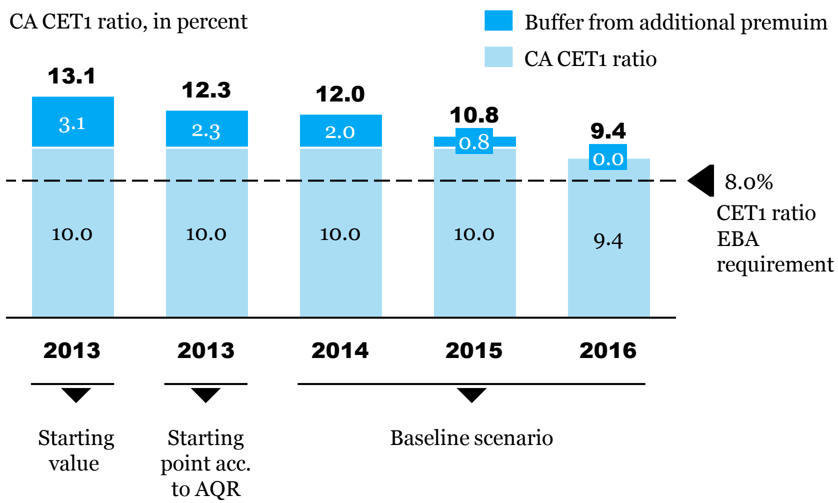
Stress test

CA CET1 ratio of 6.1% substantiates strong resilience also in an adverse scenario

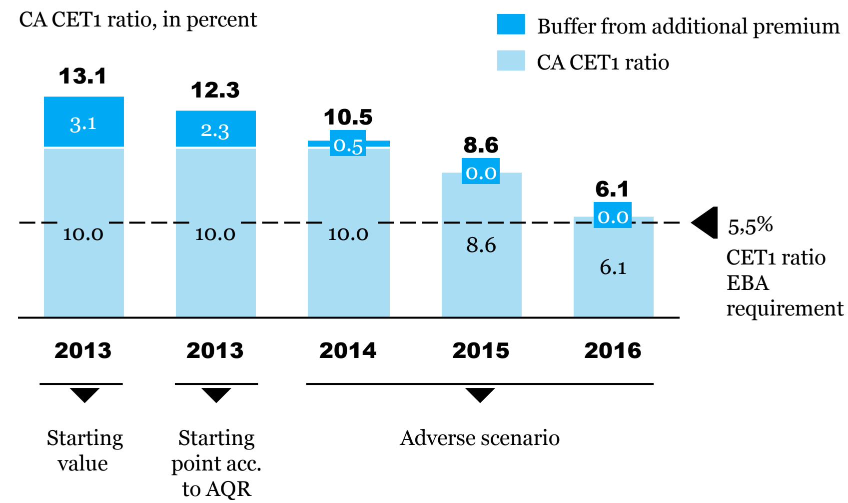
Baseline scenario



Simulation / selected elements of the result

in EUR mn	2013	2014	2015	2016
Operating profit/loss	227	41	-51	-45
LLP-simulation	-1,022	-127	-95	-85
Pre-tax net income	**-886**	**-32**	**-159**	**-169**
Taxes	-208	10	48	51
After-tax net income	**-1,094**	**-23**	**-111**	**-118**
CA CET1 capital	3,781	3,818	3,841	3,636
RWA	37,806	38,179	38,414	38,627

Adverse scenario



Simulation / selected elements of the result

in EUR mn	2013	2014	2015	2016
Operating profit/loss	227	-52	-256	-391
LLP-simulation	-1,022	-188	-139	-116
Pre-tax net income	**-886**	**-21**	**-411**	**-834**
Taxes	-208	6	123	16
After-tax net income	**-1,094**	**-14**	**-288**	**-819**
CA CET1 capital	3,781	4,154	3,611	2,533
RWA	37,806	41,542	42,184	41,761

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