HSH NORDBANK AG

TAILORED RESOLUTION PLAN (pursuant to Section 165(d) of the Dodd-Frank Wall Street Reform and Consumer Protection Act)

December 2013

Public Section

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1. Introduction

US resolution plan rules

In September 2011, pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the *Dodd-Frank Act*), the Federal Deposit Insurance Corporation (the *FDIC*) and the Board of Governors of the Federal Reserve System (the *FRB*) issued a final rule, 12 C.F.R. Parts 243 and 381 (the *SIFI Rule*), implementing Section 165(d) of the Dodd-Frank Act. The SIFI Rule requires, among others, each bank holding company with total global consolidated assets of US\$50 billion or more (a "covered company" under the SIFI Rule), to submit periodically to the FRB and the FDIC a plan for the rapid and orderly resolution in the event of material distress or failure of such company's US operations (a *U.S. Resolution Plan*).

HSH Nordbank AG (also referred to hereafter as the *Bank* and, together with its subsidiaries, the *HSH Group*) is a foreign bank organized under the law of the Federal Republic of Germany that has a branch office in the State of New York, HSH Nordbank AG, New York Branch (*HSH NY*). As a result, HSH Nordbank AG is treated as a bank holding company under Section 8(a) of the International Banking Act of 1978 (12 U.S.C. 3106(a)). Because (i) HSH Nordbank AG meets all of the requirements of 12 CFR § 243.4(a)(3)(i) of the SIFI Rule, including notice to the FRB and the FDIC of its intent to submit a tailored resolution plan and a letter from the FRB and the FDIC dated May 29, 2013 jointly informing the Bank that it may choose to file a tailored resolution plan for the 2013 submission and (ii) under the SIFI Rule, a U.S. Resolution Plan shall be divided into a public section and a Confidential Section, this is the public section of the Bank's tailored resolution plan.

Moreover, because HSH Nordbank AG is a foreign-based covered company that is filing a tailored plan, 12 CFR § 243.4(a)(2) of the SIFI Rule together with 12 CFR § 243.4(a)(3)(ii) of the SIFI Rule provide a framework for the information to be included in the U.S. Resolution Plan in general. As such, the information requirements are generally limited to HSH Nordbank AG's subsidiaries, branches and agencies, and the core business lines (*CBLs*) and critical operations (*COs*) to material entities (*MEs*), as applicable, that are domiciled in the United States or conducted in whole or material part in the United States.

1.1 Overview of the business of HSH Nordbank AG

Global operations

As a commercial bank organized under the law of the Federal Republic of Germany, HSH Nordbank AG is regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht (*BaFin*). It has twin headquarters in Germany located in Hamburg and Kiel (these offices, collectively, the *Head Office*) and operates from offices in Berlin, Düsseldorf, Hanover, Munich and Stuttgart. Outside Germany, it operates offices in Athens, Hong Kong, Luxembourg, New York, Singapore and the Cayman Islands.

As at December 31, 2012, HSH Nordbank AG had consolidated total assets of approximately EUR 131 billion (approximately US\$173 billion) and employed approximately 3,712 employees worldwide (of which 94 are employed in New York by HSH NY).

Firmly entrenched in Northern Germany, HSH Nordbank AG primarily focuses on corporate banking largely as a provider and adviser to upper medium-sized businesses in various financial and business matters relating to commercial loans, structured financings, export financings, payment transaction services, hedging products for commodity, currency and interest rate risks, specialized financings for real estate projects and M&A consultancy. In addition, HSH Nordbank AG also conducts private banking for entrepreneurs and high-net worth individuals and serves as a partner to the German savings bank association (*Deutscher Sparkassen- und Giroverband*), an association of German savings banks (*Sparkassen*). On an international scale, HSH Nordbank AG focuses on the corporate clients of its Shipping and Energy & Infrastructure units by offering various financial products and services related to structured financings, foreign trade financings, payment transactions, commodity, currency and interest rate hedging products, M&A consultancy as well as other private banking products for corporate clients.

In 2009, HSH Nordbank AG underwent a global strategic realignment, forming two separate internal units, <u>i.e.</u>, the "Core Bank" and the "Restructuring Unit".¹ The Core Bank consists of all business activities of HSH Nordbank AG that are relevant to its revised global business strategy and that are to be continued on a long term basis. The Restructuring Unit consists of the internal unit established by the Bank to manage the winding down of all of its portfolios, business areas and equity investments that do not fit within the business strategy of HSH Nordbank AG or that it was required to cease in accordance with undertakings and conditions imposed by the EU Commission in state aid proceedings resulting from the financial assistance received by HSH Nordbank AG in 2009. Consequently, all portfolios, business areas and equity investments which are to be ceased have been internally transferred to the Restructuring Unit, which manages the winding-down and the sale of non-strategic portfolios and business lines that have been separated organizationally from the core business of HSH Nordbank AG and are not continued in the Core Bank.

¹ It should be noted that, as described further in this U.S. Resolution Plan and as used in the context of the Bank's business, the term "Restructuring Unit" deviates from typical nomenclature in that it is not limited to refer to only troubled assets. Rather, the term also captures, among other things, certain profitable portfolios, business areas and equity investments that do not fit within the overall business strategy of HSH Nordbank AG, as described further below.

Core Bank

The Core Bank consists of two segments reflecting the strategic business areas of HSH Nordbank AG: the Corporate and Private Clients segment and the Products, Capital Markets and Corporate Center segment.

Activities in the Corporate and Private Clients segment consist of the following:

- providing commercial loans, structured financings, export financings, payment transaction services, hedging products for commodity, currency and interest rate risks and advising and supporting clients in the food, health, textile, retail, service, logistics & transportation and manufacturing industries with their strategic positioning, the optimization of their assets and capital structures and risk and liquidity management;
- providing a range of structured finance products in connection with global trade finance transactions, including assisting with any concurrent risk hedging involved in cross-border exchanges of goods and services;
- offering private banking services to high net-worth individuals;
- assisting non-profit organizations and other foundations throughout Germany with their formation, strategy, fundraising, public relations and management, with a focus on advisory services in the areas of social investment and venture philanthropy;
- advising clients ranging from local to foreign investors, project developers and property developers in the German real estate industry, with a focus on Germany's real estate market in metropolitan regions;
- assisting with financings of various projects in the field of renewable energies, such as on- and offshore wind and photovoltaic farms;
- assisting with project financings in the field of transportation and logistics, with a concentration on European air- and seaports (including related infrastructure, such as railways) and a smaller focus on financings of pipelines, fuel depots and electrical networks; and
- providing support to clients within the shipping industry in various regions and market segments by offering long-term ship mortgage loans, construction period financings and structured ship financings (including products and services in connection with (i) M&A consultancy, (ii) all aspects of domestic and foreign payments or cash management and (iii) hedging against various risks including interest, currency and oil price risks, and freight cost risks in container shipping).

Activities in the Products, Capital Markets and Corporate Center segment consist of the following:

- supporting corporate clients, savings banks, banks and insurance companies by offering various financial products and solutions such as the arranging of syndicated loans;
- providing a combination of traditional loan products with other services addressing any special financing requirements;
- arranging large-volume transactions with HSH Nordbank AG acting as a bookrunner or arranger in connection with structured financings and financing of foreign trade (in particular, in commodities trading); and
- servicing various savings banks and financial institutions in the development and sales of capital market-oriented products such as bonds, certificates and risk management products.

Restructuring Unit

The Restructuring Unit generally consists of capital market portfolios such as the credit investment portfolio and the loan commitments provided in connection with the business areas that HSH Nordbank AG has decided to discontinue, a large portion of which are non-German loan portfolios. The task of the Restructuring Unit is to efficiently winddown all non-strategic portfolios and business areas that have been separated from the core business of the bank (such as asset-based aircraft financings and additional portfolio sections from the shipping, real estate and corporate areas that were transferred from the Core Bank to the Restructuring Unit), while at the same time safeguarding their profitability and minimizing their risk. The guiding principles behind this process have been limiting losses, recovering fundamental value, preserving liquidity and guarantees and ensuring cost efficiency.

The Restructuring Unit operates as a separate department at the management board level. The Bank maintains separate accounts for the Restructuring Unit and the Core Bank. The establishment of the Restructuring Unit has essentially permitted HSH Nordbank AG to keep its non-strategic portfolios and business areas fully separate from the strategic portfolios and business areas in its Core Bank.

Global Head principle (management of branches)

With regard to its branches, HSH Nordbank AG follows a "Global Head" principle which ensures uniform management of the various business areas on a worldwide basis and essentially consists of a Global Head for each business area that is responsible for determining the global strategy for such business area. In the context of its various branches, the General Manager of the relevant branch is responsible for the implementation of the global strategies of the relevant business areas that are active in such foreign branch. By virtue of this Global Head structure, Head Office has significant influence over the business of each of its branches.

U.S. operations

HSH Nordbank AG predominantly conducts its U.S. operations through HSH NY. It is licensed by the New York State Department of Financial Services (the *NYSDFS*) and regulated by the FRB and BaFin. HSH NY is not insured by the FDIC. It primarily engages in traditional commercial lending and deposit-taking activities and enters into derivatives (primarily interest rate swaps and foreign exchange swaps) and forwards (a) with swap dealers for the Bank's own macro hedging purposes and (b) in connection with loans to customers as a hedging product provided in connection with such loan.

HSH NY books several types of transactions, each within parameters established by HSH Nordbank AG, including the following:

- loan origination and extensions of credit (including loans and standby letters of credit);
- deposits (subject to regulatory limitations);
- currency transactions;
- investments in U.S. Treasuries;
- repurchase agreements and reverse repurchase agreements generally over U.S. Treasuries and other high quality, liquid U.S. corporate securities and U.S. asset backed securities; and
- derivatives as described above.

In addition to the operations conducted through HSH NY, HSH Nordbank AG as at December 31, 2012 held economic and voting rights in various subsidiaries domiciled in the U.S. In each case, their valuation (as of December 31, 2012) is below any level that could be considered material to any business line of HSH Nordbank AG.

Resolution planning

This U.S. Resolution Plan was prepared against the backdrop of the global strategic realignment undergone in 2009 and the underlying assumption that HSH Nordbank AG and HSH NY each fail as a result of a sudden idiosyncratic distress event that affects no other financial institutions, subsidiaries or market participants. However, in light of being a German credit institution regulated by BaFin and subject to the German Banking Act (*KWG*) and the German Insolvency Code (*InsO*), BaFin is generally responsible for the resolution planning of German banks. Consequently, this U.S. Resolution Plan is ultimately subject to the overall resolution planning process in Germany.

2. Material entities

The SIFI Rule defines an ME as a subsidiary of a foreign office of the covered company that is significant to the activities of a CO or a CBL. As described below in Section 3 (*Core business lines and critical operations*), HSH Nordbank AG has determined that it does not have any CBLs or COs and, consequently, no MEs.

3. Core business lines and critical operations

CBLs are defined under the SIFI Rule as those business lines of the covered company, including associated operations, services, functions and support, that upon failure would result in a material loss of revenue, profit or franchise value. For non-U.S. covered companies such as HSH Nordbank AG, the U.S. resolution plan is limited to those CBLs conducted in whole or in material part in the U.S. After completing a quantitative and qualitative analysis, including reviewing financial statements prepared in accordance with International Financial Reporting Standards (*IFRS*) (including balance sheets as of December 31, 2012 and annual profit and loss statements for the year 2012), legal entity organization charts, other relevant data and management's judgment, HSH Nordbank AG determined that there were no CBLs conducted in whole or in material part in the U.S.

COs are defined under the SIFI Rule as those operations of the covered company, including associated services, functions and support, the failure or discontinuance of which, in the view of the covered company or as jointly directed by the FRB and the FDIC, could pose a threat to the financial stability of the U.S. For non-U.S. covered companies, such as HSH Nordbank AG, the SIFI Rule limits the U.S. Resolution Plan requirements to those operations conducted in whole or in material part in the U.S.

HSH Nordbank AG has not been informed by the FRB or FDIC of any designation by the FRB and FDIC of an operation of HSH Nordbank AG as a CO. HSH Nordbank AG has independently performed its own analysis of whether any operation conducted by HSH Nordbank AG in whole or material part in the U.S. would be a CO. Based on its analysis, HSH Nordbank AG determined that there are no COs conducted in whole or in material part in the U.S.

4. Summary financial information regarding assets, liabilities, capital and major funding sources

Assets and liabilities

The following is a consolidated balance sheet for HSH Nordbank AG as at December 31, 2012, prepared in accordance with IFRS:²

² Also listed separately as Appendix 1.

HSH NORDBANK AG	r	
As at December 31, 2012	EUR in	USD in
, 	millions	millions ³
Assets		
Cash reserve	6,745	8,903
Loans and advances to banks	8,353	11,026
Loans and advances to customers	80,570	106,352
Loan loss provisions	-3,581	-4,727
Positive fair value hedging derivatives	2,170	2,864
Positive adjustment item from portfolio fair value hedges	403	532
Trading assets	11,817	15,598
Financial investments	22,067	29,128
Financial investments accounted for under the equity	-	-
Intangible assets	65	86
Property, plant and equipment	260	343
Investment property	39	51
Non-current assets held for sale and disposal groups	186	246
Current tax assets	105	139
Deferred tax assets	1,267	1,672
Other assets	140	185
Total Assets	130,606	172,400
Liabilities		
Liabilities to banks	29,934	39,513
Liabilities to customers	41,308	54,527
Securitized liabilities	31,459	41,526
Negative fair values of hedging derivatives	943	1,245
Negative adjustment item from portfolio fair value hedge	1,545	2,039
Trading liabilities	11,450	15,114
Provisions	1,664	2,196
Liabilities relating to disposal groups	183	242
Current tax liabilities	108	143
Deferred tax liabilities	14	18
Other liabilities	1,335	1,762
Subordinated capital	5,391	7,116
Total Liabilities	125,334	165,441
Equity		
Share capital	3,018	3,984
Capital reserve	594	

³ Please note that the figures in USD have not been audited and solely consist of the currency conversion of the EUR figures at the USD/EUR exchange rate of 1.32 as of December 31, 2012.

Retained earnings	1,876	2,476
Revaluation reserve	-31	-41
Currency conversion reserve	-59	-78
Group net loss/profit	-120	-158
Total before non-controlling interests	5,278	6,967
Non-controlling interests	-6	-8
Total Equity	5,272	6,959
Total Equity and Liabilities	130,606	172,400

Capital

The following summarizes the regulatory capital ratios of HSH Nordbank AG as at December 31, 2012 (after adoption of the 2012 financial statements), prepared in accordance with IFRS as published by the IASB and adopted as European law by the European Union:⁴

	Ratios
Equity ratio (solvency coefficient)	20.1%
Total ratio/Regulatory capital ratio	19.1%
Tier 1 capital ratio	13.2%
Tier 1 capital ratio (including market risk position)	12.3%
Core Tier 1 capital ratio (including market risk position)	9.9%

Major Funding sources

HSH Nordbank AG funds its operations through a diversified deposit base, by issuing short-term and long-term debt, by borrowing under secured and unsecured financing facilities, issuing preferred equity in certain entities and, as necessary, through a guarantee facility from a special vehicle guarantor granted by certain of its parent entities and capital contributions from its parent entities.

Funding within the HSH Group is mainly sourced through HSH Nordbank AG on the basis of individual contractual credit relationships between HSH Nordbank AG and the other HSH Group entities. HSH Nordbank AG funds its U.S. operations through a deposit base, by issuing short-term debt, by borrowing under secured short-term facilities and through deposits of funds by Head Office.

5. Derivative and hedging activities

HSH Nordbank AG enters into swap agreements with third party swap dealers in order to hedge its interest rate and foreign exchange exposures. These swap agreements are based

⁴ Also listed separately as Appendix 2.

on the ISDA standard form Master Agreement and include a credit support annex (CSA) that provides for bi-lateral collateral posting of variation margin against exposure to the pledgor. The Collateral Management desk in Head Office is responsible for monitoring and satisfying all collateral requirements under the CSA, including transfers of collateral between HSH Nordbank AG and counterparty. HSH NY is not involved in the administration of the CSA or any matters relating to collateral thereunder. Swaps with external swap dealers are fully collateralized, subject to exposures that may arise between collateral calls.

HSH NY also enters into swap agreements with loan customers in connection with the applicable loan and as a service to such customer, but such swap agreements do not include a CSA and HSH NY does not pledge collateral to its loan customers.

6. Memberships in material payment, clearing and settlement systems

Based on the analysis that there are no material entities, core business lines or critical operations that, as required pursuant to 12 CFR § 243.4(a)(2)(i), are domiciled or conducted in whole or material part in the U.S., only payment, clearing and settlement systems of HSH NY are described below, on the basis of its interconnections and interdependencies with HSH Nordbank AG.

PAYMENT, CLEARING AND SETTLEMENT SYSTEMS			
Type of system	Name of system	Membership/License owner	
Payment System	SWIFT Alliance Access	HSH NY	
Payment System	FedLine Advantage	HSH NY	
Capital Markets Settlements	K+TP; Calypso (for securities/derivatives)	HSH Nordbank AG	
Messaging system	Bloomberg	HSH NY	
Clearing system	DTC	Bank of New York Mellon	

HSH NY uses the following payment, clearing and settlement systems:⁵

7. Foreign operations

See Section 1 (Introduction) for a description of HSH Nordbank AG's foreign operations.

8. *Material supervisory authorities*

⁵ Also listed separately as Appendix 3.

The HSH Group is subject to regulation in the U.S. under U.S. federal and New York State law, and other applicable state law, in addition to applicable laws in the other countries in which it conducts its business. HSH NY, as the sole branch of HSH Nordbank AG that is domiciled in the U.S., is licensed by the NYSDFS and regulated by the FRB and BaFin. HSH NY is not insured by the FDIC. In Germany, HSH Nordbank AG is licensed and regulated by the BaFin, and is also regulated by the Bundesbank.

9. Principal officers

The senior management team of HSH NY consists of:

Charles Lansdown, General Manager HSH NY; Orly Watson, Head of Finance and Tax HSH NY; and Carl Stetz, General Counsel HSH NY.

The Management Board of HSH Nordbank AG consists of:

Constantin von Oesterreich, CEO;
Stefan Ermisch, Chief Financial Officer;
Torsten Temp, Member of the Management Board for Shipping, Project & Real Estate Clients
Edwin Wartenweiler, Chief Risk Officer; and
Matthias Wittenburg, Member of the Management Board for Corporates & Markets.

10. Corporate governance structure and processes related to resolution planning

HSH Nordbank AG and HSH NY support the Financial Stability Board's and national regulators' aim of ensuring banking groups are resolvable and are fully committed to the recovery and resolution planning process. To foster a consistent global approach to recovery and resolution planning, the internal Strategy unit of HSH Nordbank AG, which ultimately reports to the CEO, coordinates in close cooperation with the Legal unit and the Finance unit the recovery and resolution planning processes within the Bank. The continuous work of the members of the Strategy unit on the recovery and resolution planning process has been coordinated within a project structure that was established on the basis of a corresponding resolution of the Management Board of HSH Nordbank AG.

However, it is also recognized that recovery and resolution planning requirements vary from jurisdiction to jurisdiction and, consequently, each country has its own recovery and resolution planning team that is responsible for its own plan and for satisfying its respective regulatory requirements (with respect to HSH NY, the *U.S. RP Team*). The members of the internal Strategy unit as well as the members of the Legal unit and the Finance unit at Head Office worked with and supported the U.S. RP Team to satisfy the U.S. requirements during the preparation of this U.S. Resolution Plan.

Pursuant to the German Banking Act, HSH Nordbank AG is required to file a recovery plan (the *German Recovery Plan*) with BaFin. This German Recovery Plan provides for a strategic analysis of HSH Nordbank AG, including its key branches and key subsidiaries, as well as an assessment of various options for recovery actions in the event of financial distress of the Bank, which (in accordance with German law) focus on the rehabilitation, rather than the resolution, of the entity. This analysis includes an evaluation of six particular stress scenarios and provides for recovery indicators and an escalation process which collectively establish a corporate governance structure that allows for a timely response to various crisis situations. By providing for effective options for recovery actions that enable HSH Nordbank AG to respond to a crisis scenario and thus sustain its viability, the German Recovery Plan also takes into account the interests of HSH NY (as a branch office of HSH Nordbank AG). The German Recovery Plan, however, does not include a strategy for the resolution of HSH Nordbank AG due to the fact that, according to § 47 para. 2 of the KWG, BaFin, as HSH Nordbank AG's lead regulator, is solely responsible for any resolution planning.

Once the German Recovery Plan has been finalized, HSH Nordbank AG will develop policies and procedures related to general maintenance, implementation and revision of both the German Recovery Plan and the U.S. Resolution Plan. Those policies will assign core responsibilities for the ongoing review, revision and maintenance of the plans. The policies and procedures will ensure that the U.S. Resolution Plan is reviewed and updated annually to account for any material changes in (a) the business and operations of HSH Nordbank AG that are conducted in whole or material part in the U.S., (b) its branches and subsidiaries domiciled in the U.S., (c) the U.S. Resolution Plan's business descriptions, strategy, determinations of CBLs, COs and MEs and (d) applicable law and regulation.

11. Material management information systems

Material management information systems used by HSH Nordbank AG with respect to its US operations include various systems/applications specifically designed for accounting, reporting and recordkeeping purposes.

In addition, HSH NY relies on various internal reports that senior management of HSH NY use to monitor the financial health, risks and operations of HSH NY and its businesses, including: profit & loss and balance sheet reports; risk management reports; credit reports; product reports; and various other reports prepared in connection with particular issues or events.

12. Resolution plan summary

The resolution strategy for HSH NY in the event of its failure would be for the orderly wind-down of HSH NY. Pursuant to Section 606(4) of the New York State Banking Law (*NYSBL*), the Superintendent (*Superintendent*) of the NYSDFS would have the authority to take possession and control of the business and property of HSH Nordbank AG in the State of New York, and would be expected to do so on or before the failure of HSH

Nordbank AG. Upon the occurrence of one or more statutory grounds, the Superintendent has the power to take possession of the "business and property" of HSH Nordbank AG in the State of New York, which includes (i) all of the property of HSH Nordbank AG wherever situated if it constitutes part of the business of HSH NY or if it appears on HSH NY's books and (ii) all property of HSH Nordbank AG situated in New York, whether or not it constitutes part of the business of HSH NY or appears on its books. Possession by the Superintendent would act as a stay and an injunction which would protect assets that would be used to satisfy the claims of HSH NY's creditors. The Superintendent would be expected to exercise its authority pursuant to Article XIII of the NYSBL to dispose of the assets of HSH NY in an orderly wind-down and liquidation and distribute the proceeds thereof to the creditors of HSH NY.