

# REPORT OF THE SUPERVISORY BOARD FOR THE 2015 FINANCIAL YEAR

HSH Nordbank looks back on an eventful 2015 financial year. The positive agreement in principle with the EU Commission meant not only that the replenishment of the second-loss guarantee by the federal states from € 7 to 10 billion was approved, but also a decision was taken on the future of the Bank. This event was significant given the backdrop of a continuing difficult market setting, in particular the still difficult situation in the shipping sector and volatile US dollar exchange rates. Speculation about the wind-down of HSH Nordbank ahead of the EU decision also did not fail to impact on the Bank's business situation. This agreement in principle in October 2015 is all the more significant as it gives the owners, staff and clients a foundation for making dependable plans and strengthens the basis for the future of the Bank. At the same time it confirms the efforts made in recent weeks and months to resolutely build up the client business and reduce legacy assets in a risk-conscious manner and to rapidly implement the restructuring measures initiated. Amid this setting characterised by uncertainty the Supervisory Board advised the Management Board in the management of the company and monitored its management activities. Apart from questions relating to the Bank's strategic alignment, which were discussed jointly with the Management Board in the course of a separate workshop, the Supervisory Board always kept itself informed on the economic and financial performance overall and of individual business segments. Deviations from planning in the course of business were explained to the Supervisory Board.

The Management Board informed the Supervisory Board regularly, punctually and comprehensively about business policy and other fundamental questions of corporate governance and planning, the financial performance, the income situation as well as the Bank's risk, liquidity and capital management, about major legal disputes and transactions and events of considerable significance to the Bank. The Supervisory Board was involved in decisions of material importance for the Bank. The Chairman of the Supervisory Board and the Chairs of the Risk Committee and Audit Committee were moreover kept informed by the Management Board of important topics and of upcoming decisions, including between scheduled meeting dates. Where resolutions were required between meetings, these were passed by the Supervisory Board in writing.

## MEETINGS OF THE SUPERVISORY BOARD

Eight meetings of the Supervisory Board were held during the 2015 financial year, three of which were convened for extraordinary reasons. One resolution was passed in writing.

The Management Board kept the Supervisory Board informed of the Bank's current economic situation, the business performance as a whole and in the individual business areas and in relation to the current business plan, the risk position, the trend of capital and the liquidity and funding situation during all ordinary meetings. The Supervisory Board subjected the reports to critical scrutiny and requested additional information and documents in some cases. The subject of regular reports also included status reports on the EU state aid proceedings, on the Bank's transformation programme and on tax risks from ongoing company audits. The Supervisory Board also discussed various Management Board matters. The auditors regularly took part in the Supervisory Board meetings and were available to the Supervisory Board for additional information. The quarterly results were discussed with the Management Board in the presence of the auditor of the financial statements.

During a joint strategy discussion the Supervisory Board held in-depth talks with the Management Board on the Bank's alignment in terms of business strategy and the upcoming challenges.

Furthermore, the Supervisory Board participated in two advanced training sessions in the 2015 financial year, in which – apart from questions relating to current trends in regulatory law – issues specific to the Bank were explained and discussed.

The meeting on 24 February 2015 focused on an in-depth discussion of the financial, capex and personnel plan from 2015 – 2017 presented by the Management Board. In addition, the targets for the Management Board were fixed for 2015. Furthermore, the Supervisory Board discussed the Report on Corporate Governance, the Declaration of Conformity and the report of the Supervisory Board for the 2014 financial year. The ongoing challenges for corporate client business were discussed in depth on the basis of a presentation on the Corporate Clients and Wealth Management business areas. Another topic was a report on the Energy & Infrastructure business area, in which among other things the target portfolio consisting of solar and wind energy as well as transport infrastructure projects was discussed.

The meeting on the annual financial statements took place on 31 March 2015. The meeting was convened primarily in order to endorse the 2014 annual financial statements and consolidated financial statements following the Supervisory Board's own examination and previous discussion with the auditor at the recommendation of the Audit Committee. Furthermore, the other resolutions usually to be adopted in this connection on the recommendations to shareholders at their Annual General Meeting were discussed. In addition, the Supervisory Board

recommended the shareholders at the AGM to approve an amendment of the Articles of Association, which had become necessary primarily due to legal/regulatory innovations. At this meeting the Supervisory Board also discussed the attainment of targets by the Management Board for the 2014 financial year. The Supervisory Board also dealt with the strategy for the Shipping business area for 2015–2017 against the backdrop of the still difficult situation in international shipping. The Supervisory Board furthermore discussed with the Management Board the annual report on equity holdings.

At its meeting on 29 May 2015 the Supervisory Board dealt with an amendment to the Rules of Procedure for the Management Board. In addition, Messrs. Ermisch and Wittenburg were appointed for a further period of office as members of the Management Board. Mr. Ermisch was also appointed Deputy Chairman of the Management Board. At its extraordinary meeting on 25 June 2015 the Supervisory Board discussed the succession of the Chief Risk Officer, who departed at the end of May 2015. Ulrik Lackschewitz was appointed a member of the Management Board of HSH Nordbank AG effective 1 October 2015.

At the meeting on 27 August 2015 the Supervisory Board focussed on the financial report for the first six months, which was discussed with the Management Board in the presence of the auditor. Furthermore, the Supervisory Board approved a target figure of 20%, if possible to be met by 30 June 2017, as required by the ‘Law on the equal participation of women and men in executive positions in the private and public sector’ (“Quota Act”) for the gender quota on the Management Board.

The extraordinary meeting of the Supervisory Board held on 18 September 2015 was dominated by the ongoing EU state-aid proceedings. The Management Board discussed the current status and the next steps in this process with the Supervisory Board.

The announcement of the agreement in principle between the EU Commission and the federal states of Hamburg and Schleswig-Holstein on 19 October 2015 prompted an extraordinary meeting of the Supervisory Board on 20 October 2015, at which the result was discussed and evaluated.

Implementation of the EU decision was discussed further at the meeting of the Supervisory Board on 3 December 2015. In addition, the Supervisory Board discussed the results of its efficiency audit pursuant to Section 25d of the German Banking Act. Furthermore, the update of the Declaration of Conformity on the German Corporate Governance Code and the Management Board report on the structure of the compensation systems based on the German Ordinance on the Compensation of Financial Institutions (IVV) were also on the agenda. Finally, the necessary adjustment of the Lending Guideline to match the terms and definitions in the Capital Requirements Regulation (CRR) was approved.

Where individual members of the Supervisory Board were affected by decisions made by the Supervisory Board or in its committees, either in person or on account of their position, or where other potential conflicts of interest occurred, they did not participate in the deliberations and decisions in the corporate body concerned. The number of further material mandates of the Supervisory Board members can be found in the Corporate Governance report in this Annual Report.

All members of the Supervisory Board attended at least half of the meetings of the Supervisory Board and its committees to which they belong. The attendance rate for all members for all meetings of the corporate bodies was 96% in 2015.

## COMMITTEES OF THE SUPERVISORY BOARD

The Supervisory Board formed five committees from among its members for support in its work.

The **GENERAL/NOMINATING COMMITTEE** met seven times last year, of which twice for extraordinary meetings. The General/Nominating Committee prepared the resolutions of the Supervisory Board in accordance with the Rules of Procedure of the Supervisory Board and in this connection dealt above all with Management Board matters, especially with proceedings against former Management Board members and the re-appointment of Messrs. Ermisch and Wittenburg and the appointment of Mr. Lackschewitz. As far as necessary resolutions were adopted or recommendations made to the Supervisory Board for resolutions to be adopted.

The **RISK COMMITTEE** met five times in the past financial year. At its meetings, which were regularly also attended by representatives of the auditors, it discussed in depth the Bank’s risk situation and risk management, particularly the risk strategy and credit, liquidity, country, market and operational risks together with tax and reputation risks. Individual exposures of importance to the Bank were discussed, as were the regularly presented risk reports on the individual asset classes. The Risk Committee sought information on all exposures subject to mandatory reporting and granted its approval on business transactions requiring approval by law. In addition, the committee received at all meetings a report on recent events and trends and their impact on the risk situation. The same applies to enquiries or audits under bank regulatory law with regard to the minimum requirements for risk management, on which the Management Board provided regular information. Furthermore, the Risk Committee dealt with the required adjustments to the internal guidelines for the lending business. The extent to which the incentives set by the Bank’s compensation systems take adequate account of the risk, capital and liquidity structure was also the subject of a Risk Committee meeting.

The **AUDIT COMMITTEE** met four times in 2015. Representatives of the auditor took part in all meetings. During its first meeting on 30 March 2015, the members of the Audit Committee discussed with the auditor the Bank's annual financial statements and Group financial statements and the correspondent audit reports. In this context the Audit Committee also discussed the relations with associated companies (dependence report). The committee checked the independence of the auditor pursuant to the requirements of the German Corporate Governance Code on the basis of the auditing company's declaration of independence and prepared the appointment of KPMG AG Wirtschaftsprüfungsgesellschaft as the auditor for 2015. In addition to this, the committee obtained information on the status of current issues relating to the bank regulator. At the meeting of the Audit Committee on 26 August 2015 the auditors presented their findings of the review of the half-year report and discussed them with the committee prior to its publication. Moreover, at this meeting the initial results from the audit of the annual financial statements were discussed with the committee. The committee received regular reports on the commissioning of the auditors with non-audit services, on the work of Internal Auditing and on compliance issues. The committee confirmed the effectiveness of the risk management system – especially Internal Auditing the Internal Control System. Furthermore, the committee discussed the results of the securities account audit and the audit of securities service business pursuant to the Securities Trading Act (WpHG). It deliberated continuously on how to deal with audit findings from previous audits and of findings from non-event-driven audits by the bank regulator. Finally, the issues dealt with by the committee were rounded off by status reports on the IT changeover and a review of IT strategy.

The **COMPENSATION MONITORING COMMITTEE** met three times in the year under report. At these it held in-depth discussions of the Bank's compensation systems and regularly received reports on the status of implementing the stipulations in the Ordinance on the Remuneration of Financial Institutions. Moreover, the Compensation Officer reported to the Compensation Monitoring Committee on the results of his monitoring and presented his annual Compensation Monitoring Report to the committee. The Chairman of the Compensation Monitoring Committee also held regular exchanges with the Compensation Officer on relevant issues outside the meetings.

No meetings of the **MEDIATION COMMITTEE** that is to be formed pursuant to the provisions of the Co-Determination Act were required in 2015.

The chairpersons of the committees regularly reported to the Supervisory Board during the subsequent plenary sessions about the work and results of the committees' deliberations.

## AUDIT AND ADOPTION OF THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS FOR 2015

The accounts, annual financial statements including the status report and the consolidated financial statements including the Group status report for the year 2015 were audited by KPMG AG Wirtschaftsprüfungsgesellschaft. KPMG was elected as auditors and Group auditors by the general shareholders' meeting on 19 May 2015. All audits resulted in an unqualified auditor's certificate with an explanatory note saying that, without limiting this assessment, the going concern assumption for accounting and valuation is based, in particular, on

- (i) full and on-time conclusion of the agreements required for implementation of the EU Commission's formal decision in the EU state aid proceedings on replenishment of the second-loss guarantee as well as HSH Nordbank AG and its shareholders implementing the formal decision fully and on time
- (ii) a sale of the operational HSH Nordbank AG having taken place by 28 February 2018 by way of an open, discrimination-free, competitive and transparent process at a favourable selling price free of state aid and the EU having approved the new corporate structure following a viability review. Should the selling process not, by the disposal deadline, lead to favourable bids free of state aid or the Commission conclude the viability review with the finding that integrating the operating company in the new corporate structure would not result in a business model that is viable in the long term, the operating company would discontinue its new business and manage its assets within the scope of what is legally permissible with the objective of an orderly wind-down. In the event of material, unexpected outflows of funds (e.g. in the scenario described above), measures to bolster liquidity would have to be applied.

Furthermore, it is necessary that the acceptance of market participants and other relevant stakeholders required for the successful implementation of HSH Nordbank's business model and the stipulations arising from the EU Commission's formal decision is maintained or gained and that the expected recoveries in the shipping markets occur.

The documentation relating to the financial statements and the audit reports together with all attachments were sent out to the members of the Supervisory Board. The auditor initially reported on the implementation and material results of his audit at the meeting of the Audit Committee on 7 June 2016. On this basis and on the basis of its own audit the Audit Committee discussed the results in detail with the auditor. At the Supervisory Board meeting on 8 June 2016 the Chairman of the Audit Committee reported to the Supervisory Board on the result of the deliberations on the Audit Committee. The auditors took part in the meeting of the Supervisory Board and reported on the material results of their audit. On the recommendation of the Audit Committee, the Supervisory Board finally agreed with the findings of the audits following its own examination of the reports of the auditors and in-depth discussion and established that following the final result of its own inspections there were no objections to be raised. The Supervisory Board adopted the 2015 annual financial statements drawn up by the Management Board and approved the 2015 consolidated financial statements. Furthermore, it adopted the report of the Supervisory Board for the 2015 financial year.

Furthermore, the Management Board has presented its own report on relations with associated companies (dependence report) in fiscal year 2015 to the Supervisory Board and the statutory auditor on time. The statutory auditor has reviewed the dependence report and issued the following unqualified auditor's certificate:

"After due examination and assessment we confirm that

1. the factual statements of the report are correct, and
2. the Company's services with respect to the transactions listed in the report were not disproportionately high."

The Audit Committee and the Supervisory Board have reviewed the Management Board's dependence report and the statutory auditor's audit report and have held discussions with the Management Board and the statutory auditor in the context of the annual financial statements. The Supervisory Board agreed with the results of the statutory auditor's report because in its assessment no objections could be raised to the Management Board's statement on the dependence report.

## CHANGES IN PERSONNEL

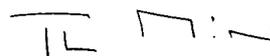
Apart from the appointment of Mr. Jörg Wohlers and Mr. Klaus-Dieter Schwetscher as new members of the Supervisory Board effective the beginning of the year under report, there was one more change in personnel on the Supervisory Board in the course of the year. Mr. Torsten Heick left the Supervisory Board effective 1 July 2015. Mr. Peter Axmann was judicially appointed his successor effective 14 July 2015. In 2016 Ms. Auerbach left the Supervisory Board effective 31 March 2016. Ms. Cornelia Hintz was judicially appointed her successor effective 18 May 2016. The Supervisory Board would like to thank Ms. Auerbach and Mr. Heick for their many years of committed service to the Bank.

There was also one change in the composition of the Management Board during the 2015 reporting year. Mr. Edwin Wartenweiler left the Bank's Management Board effective 1 June 2015. Mr. Ulrik Lackschewitz started work as the new Chief Risk Officer and new Management Board member on 1 October 2015.

The Supervisory Board thanked the Management Board and all employees for their great personal commitment and their work under the difficult conditions experienced by the Bank.

Hamburg/Kiel, 8 June 2016

The Supervisory Board



Dr Thomas Mirow  
Chairman of the Supervisory Board of HSH Nordbank AG