FINANCIAL INFORMATION

AS AT 30 SEPTEMBER 2015

HSH NORDBANK

KEY FIGURES

INCOME STATEMENT

(€ m)	January – September 2015	January – September 2014
Net income before restructuring	483	848
Net income before taxes	110	460
Group net result	24	333

BALANCE SHEET

(€ bn)	30.09.2015	31.12.2014
Equity	4.8	4.7
Total assets	104.9	110.1
Business volume	114.1	119.9

CAPITAL RATIOS[1)]

(%)	30.09.2015	31.12.2014
CET1 ratio	10.1[2)]	10.0[2)]
Tier 1 capital ratio	14.1	14.4
Regulatory capital ratio	18.4	18.7

EMPLOYEES

(computed on a full-time equivalent basis)

	30.09.2015	31.12.2014
Total	2,449	2,579
Germany	2,315	2,422
Abroad	134	157

LONG-TERM RATINGS

	Unguaranteed liabilities	Guaranteed liabilities[3)]	Public-sector Pfandbriefe	Mortgage Pfandbriefe	Ship Pfandbriefe
Moody's	Baa3	Aa1	Aa2	Aa3	Baa1
Fitch	BBB–	AAA	–	–	–

1) According to the same period calculation under the Capital Requirements Regulation (CRR).
2) Additionally, there is a buffer of 2.6 (31 December 2014) respectively 2.7 (30 September 2015) percentage points resulting from the effect of the second loss guarantee.
3) Liabilities covered by the guarantor liability (Gewährträgerhaftung).

Due to rounding, numbers presented throughout this report may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

CONTENTS

Note:
This Financial Information of the HSH Nordbank Group as at 30 September 2015 is released voluntarily and does not comply with all the accounting requirements applicable to interim reporting for capital-market-oriented companies. Recognition and measurement rules were applied on the basis of the IFRS.

HSH NORDBANK AT A GLANCE
AS AT 30 SEPTEMBER 2015

INCOME STATEMENT

(€ m)	**January – September 2015**	January – September 2014	Change in %
Interest income	3,337	3,909	– 15
Interest expense	– 2,637	– 3,323	– 21
Net income from hybrid financial instruments	– 88	– 186	53
Net interest income	**612**	**400**	**53**
Net commission income	88	103	– 15
Result from hedging	12	– 24	>100
Net trading income	87	131	– 34
Net income from financial investments	54	267	– 80
Net income from financial investments accounted for under the equity method	–	2	– 100
Total income	**853**	**879**	**– 3**
Loan loss provisions	43	387	– 89
Administrative expenses	– 447	– 498	– 10
Other operating income	74	80	– 8
Expense for European bank levy	– 40	–	>100
Net income before restructuring	**483**	**848**	**– 43**
Result from restructuring	– 18	2	>– 100
Expenses for government guarantees	– 355	– 390	– 9
Net income before taxes	**110**	**460**	**– 76**
Income tax expenses (–)/income (+)	– 86	– 127	– 32
Group net result	**24**	**333**	**– 93**
Group net income attributable to non-controlling interests	1	1	–
Group net result attributable to HSH Nordbank shareholders	23	332	– 93

BALANCE SHEET

ASSETS

(€ m)	30.09.2015	31.12.2014	Change in %
Cash reserve	7,416	5,967	24
Loans and advances to banks	5,226	6,915	– 24
Loans and advances to customers	64,843	67,336	– 4
Loan loss provisions	– 993	– 2,061	– 52
Positive fair value of hedging derivatives	949	1,405	– 32
Positive adjustment item from the portfolio fair value hedge	437	510	– 14
Trading assets	8,138	9,163	– 11
Financial investments	16,994	18,688	– 9
Financial investments accounted for under the equity method	1	1	–
Intangible assets	19	27	– 30
Property, plant and equipment	473	399	19
Investment property	73	185	– 61
Non-current assets held for sale and disposal groups	74	34	>100
Current tax assets	63	85	– 26
Deferred tax assets	1,028	1,190	– 14
Other assets	155	238	– 35
Total assets	**104,896**	**110,082**	**– 5**

LIABILITIES

(€ m)	30.09.2015	31.12.2014	Change in %
Liabilities to banks	11,320	14,547	– 22
Liabilities to customers	46,262	43,165	7
Securitised liabilities	24,783	27,634	– 10
Negative fair values of hedging derivatives	857	1,156	– 26
Negative adjustment item from portfolio fair value hedge	921	1,202	– 23
Trading liabilities	7,649	9,246	– 17
Provisions	1,579	1,699	– 7
Current tax liabilities	130	129	1
Deferred tax liabilities	29	81	– 64
Other liabilities	978	1,044	– 6
Subordinated capital	5,600	5,507	2
Equity	4,788	4,672	2
Share capital	3,018	3,018	–
Capital reserve	487	487	–
Retained earnings	1,148	929	24
Revaluation reserve	96	108	– 11
Currency conversion reserve	29	– 16	>100
Group net result	23	159	– 86
Total before non-controlling interests	4,801	4,685	2
Non-controlling interests	– 13	– 13	–
Total equity and liabilities	**104,896**	**110,082**	**– 5**

BUSINESS DEVELOPMENTS
AS AT 30 SEPTEMBER 2015

POSITIVE AGREEMENT REACHED WITH EU COMMISSION

On 19 October 2015, HSH Nordbank's majority owners, Hamburg and Schleswig-Holstein, the Federal Republic of Germany and the EU Commission reached an informal agreement in the pending EU state aid proceedings to provide significant relief to the Bank's operating business from the adverse impact of legacy portfolio items. It is also envisaged that HSH Nordbank be privatised over the medium-term. The informal agreement is to provide the basis for the final approval of the replenishment of the second loss guarantee issued by the federal states from € 7.0 billion to € 10.0 billion.

Under the informal agreement HSH Nordbank AG is to be relieved of a substantial portion of its troubled legacy portfolios. It is intended that non-performing loans in the amount of up to € 6.2 billion be transferred at market prices to the sphere of the federal state owners and an additional portfolio volume of € 2 billion be sold in the market. Any resulting losses are to be charged against the second loss guarantee under the current conditions of the guarantee agreement and will therefore result in a higher drawdown of the guarantee. Loan loss provisions could also increase. As a result of these measures, the volume of non-performing loans will fall by more than half from the current level of around € 15 billion. The largest portion of the portfolios to be sold is accounted for by non-performing shipping loans, which will reduce the impact of the very difficult shipping market and volatile US dollar on the Bank's operating performance. The portfolio to be sold by the Bank still has to be specified in detail. The portfolio remaining at the Bank will continue to be hedged by the existing proven guarantee facility. This also provides increased stability even during crisis market conditions.

A further key point of the informal agreement with the EU Commission is the future structure of the guarantee fees, together with the formation of a holding company and an operating company, which will comprise HSH Nordbank's operating business and is to be privatised. HSH Nordbank's operating company is to pay a significantly lower level of guarantee fees in the future. The base premium for the guarantee is to decrease by 1.8% to 2.2% (from a current 4%) and is solely payable on the portion of the guarantee not drawn down and no longer on the guarantee facility of € 10 billion. The base premium of currently about € 400 million should decrease to an annual amount of about € 100 million after the portfolio transactions have been implemented in full.

In the new structure the current additional premium shall no longer be payable by the operating company. Net income of HSH Nordbank's operating company will be noticeably relieved by the reduction in guarantee fees. This company would be structurally in a much better position in future to strengthen its capital from own resources and therefore meet the increasing banking supervision and market requirements. At the same time the aim is to reduce the complexity of the effects of the guarantee on the income statement significantly.

The holding company is to relieve the operating company of all other fee components of the second loss guarantee – base premium on the portion of the guarantee drawn down, base premium of 1.8% on the portion of the guarantee not drawn down and current additional premium.

Overall, the intended measures are likely to contribute to a substantial improvement in the financial, capital and risk profile of HSH Nordbank's operating company.

A period of 24 months following the binding decision of the EU Commission is provided for the sale of the operating company. The period can be extended by up to six months if there are delays for reasons outside the control of the Bank and the federal states. The federal states of Hamburg and Schleswig-Holstein may retain a shareholding of 25% for up to four years following the sale. The details of the sales process are to be coordinated with the EU Commission. The EU Commission will perform a final assessment of the success of the sales process. Further information on the agreed privatisation requirement is set out in the "Outlook" section.

The informal agreement is to provide the basis for the final conclusion of the state aid proceedings, which is expected in the first half of 2016 following the development of a restructuring plan and after the necessary resolutions of the Hamburg and Schleswig-Holstein parliaments have been obtained. This is to be followed by the implementation of the planned structural measures.

The annual and consolidated financial statements 2015 may be significantly impacted by the informal agreement reached with the EU Commission on 19 October 2015. However, the informal agreement did not have any impact on these interim financial statements as at 30 September 2015.

OVERVIEW OF BUSINESS PERFORMANCE

Business development in the first nine months

HSH Nordbank's operating activities were vigorously driven forward over the past few months regardless of the fact that agreement in the EU proceedings had still not been reached in the reporting period. The focus was on the development of new business in a challenging market environment while taking the internal risk and margin requirements into account. Legacy portfolio items were further reduced significantly in the Restructuring Unit with a focus on winding down shipping loans and capital markets positions. The Bank has also made progress in line with the plan in optimising the organisation and processes as part of the cost reduction programme initiated at the end of 2014. This resulted in a further noticeable decrease in administrative expenses.

Focused new business developments in the third quarter

New business in the Core Bank amounted to € 6.4 billion for the first nine months of 2015 and, overall, fell short of the high volume of € 7.0 billion transacted in the same period of the previous year while taking the strict internal risk and income requirements into account. New business volume amounted to € 1.4 billion in the third quarter 2015 (same period of the previous year: € 2.6 billion). This development is attributable to market-related subdued customer demand for loans and uncertainty in the market that will be felt until the EU proceedings are concluded. Another reason is the targeted reduction in new business in the shipping sector against the backdrop of the very difficult market situation in the shipping industry and the volatile movement in the US dollar. Loans and advances to customers are broken down as follows as at the reporting date: loans and advances to real estate clients accounted for 29% of the loan volume, corporates 31% and the shipping sector 40%. Details on new business transacted in the individual divisions are set out below in the "Segment results" section of this report.

It was possible to increase the share of new loans disbursed in new business transacted (disbursement ratio) compared to the previous year and it is now above the pro rata target level. The stable and above-plan trend in interest margins achieved was encouraging. Cross-selling income arising from various banking services offered in addition to loan financing was increased thanks to more extensive product sales in the Core Bank compared to the same period of the previous year. Risk hedging as well as transaction banking and investment products were the services most in demand with Core Bank customers. This is partly offset by a decrease in cross-selling income in the Restructuring Unit, where lower loan restructuring fees were received due to the progress made in reducing risk.

New business concluded in accordance with the margin and risk requirements and product sales had a positive impact on the Core Bank's operating earnings. The Core Bank's portfolio quality also benefited from the repayment of existing loans with comparatively unfavourable income and risk parameters. Overall, the progress made in implementing the Core Bank's customer-based strategy and further consolidation of the anchoring of the customer divisions in their target markets are reflected in the business developments.

Against the backdrop of the business performance and movements in the USD exchange rate (portfolio effect: € +1.1 billion), total assets of the Core Bank amounted to € 75 billion as at 30 September 2015 (31 December 2014: € 76 billion). The increase attributable to new business was offset by scheduled and unscheduled loan principal repayments.

Accelerated winding down of legacy portfolios

HSH Nordbank consciously intensified the winding down of the legacy portfolios in order to systematically further reduce legacy portfolio items. This resulted in a further reduction in total assets of the Restructuring Unit despite the offsetting effect of an appreciation in the US dollar (portfolio effect: € +0.8 billion) to € 26 billion (excluding consolidation items; 31December 2014: € 31 billion, 2009: € 83 billion).

In view of the continuing very difficult market situation in the shipping industry the focus of the active winding down of the portfolio continued to be on structured solutions (so-called Nautilus structures), under which the Bank reduces its portfolio risks and at the same time retains the possibility of benefiting from a recovery in the shipping industry. Seven transactions of this kind totalling USD 1.3 billion were concluded in the first nine months of the year 2015. The total number of such transactions concluded since 2013 is therefore nine. The Bank expects that further transactions will be concluded in the coming months.

Active winding down measures also focused on capital markets portfolios, which were linked to overall slightly positive income effects in the reporting period. An amount of € 1.4 billion in addition to scheduled principal repayments was actively wound down during the nine months to 30 September 2015; this related primarily to the credit investment portfolio.

Cost savings and optimisation of internal structures

The cost reduction programme initiated at the end of 2014, by means of which HSH Nordbank is countering not least the increased costs for regulatory requirements, was driven forward in recent months in line with the plan. The optimisation of processes and organisational structures achieved to date and targeted management of cost items has contributed to a further significant reduction in administrative expenses. The reduction in staff resulting from the restructuring also had an impact in this regard. The Bank will also work on improving cost efficiency in the future with undiminished intensity.

With effect from the beginning of the third quarter, the Corporate Clients, Energy & Infrastructure as well as Wealth Management divisions were merged into a new Corporates division in order to focus the business and streamline the organisational structure. Further details regarding this can be found in the section on the Corporates & Markets segment.

Net income positive as expected

Against the backdrop of the progress made as planned in the operating business HSH Nordbank generated net income before taxes of € 110 million compared to net income before taxes of € 460 million in the same period of the previous year, which was marked by the very high positive impact of the debt waiver by the guarantors of the additional premium for the guarantee. After deducting income tax expense, Group net income in the amount of € 24 million remained (same period of the previous year: € 333 million).

In the first nine months of the previous year, the debt waiver generated a high income impact (€ +668 million) which resulted from the transition to Basel III at the beginning of 2014 and the related determination of regulatory capital under IFRS. This relieving effect, the purpose of which is to ensure adequate capital ratios, was significantly lower in the same period of this year (€ +289 million) and was recognised solely in the first quarter. Furthermore, the European bank levy charge (provision of € –40 million) and contribution to the deposit guarantee scheme (provision of € –14 million) had an adverse impact for the first time in the reporting period. In addition to current income taxes, deferred tax expense was the main contributory factor for the relatively high tax expense in relation to income before taxes.

HSH Nordbank's total income amounted to € 853 million thanks to a sharp increase in net interest income to almost the level of the same period of the previous year (€ 879 million). The net interest income trend reflects the positive impact of the increase in new business at stable margins, although new business concluded in the third quarter of the reporting year decreased compared to the previous quarters. This was offset by the negative impact of the most recent further reduction in high-risk legacy portfolios and loan principal repayments. The increase in net interest income is also attributable to the non-recurrence of exceptional charges recognised in the previous year and a positive one-off hedge accounting effect already recognised in the first quarter.

Net trading income and net income from financial investments also had a positive effect on HSH Nordbank's total income, albeit to a lesser degree than in the previous year. Net trading income, which was affected by volatile movements in the financial and foreign exchange markets, amounted to € 87 million (same period of the previous year: € 131 million). Net income from financial investments of € 54 million for the first nine months of 2015 fell considerably short of the net income of € 267 million disclosed in the same period in the previous year, which benefited to a greater extent from the reversal of impairment losses and gains and losses realised as part of liquidity management and the wind-down measures implemented. Net income from financial investments was adversely impacted by risks relating to equity holdings.

Against the backdrop of the ongoing cost reduction programme the marked reduction in operating and personnel expenses also contributed to the positive result for the first nine months. Administrative expenses overall decreased to € –447 million compared to € –498 million in the same period of the previous year.

Higher additions to loan loss provisions were again required for shipping loans in order to take account of the continuing very difficult market situation in the shipping industry, whereas the risk trend in the other divisions remained insignificant. The corporates and real estate clients portfolio was considerably affected by the net release of loan loss provisions, which was based on loan principal repayments and improved risk assessments.

The overall higher loan loss provisions continued to be compensated for by the second loss guarantee, but, in total, at a significantly lower level than in the previous year due to offsetting charges arising from the guarantee structure. A lower income impact from the debt waiver of the guarantors incurred, which in addition was solely recognised in the first quarter. At the same time, loan loss provisions recognised for legacy positions in the shipping loan portfolio were compensated. Positive loan loss provisions of € 43 million were disclosed after taking into account the additional premiums recognised through profit or loss for the first nine months of the year. Loan loss provisions disclosed in the same period of the previous year amounted to € 387 million due to the higher debt waiver in the previous year.

The relief provided by the guarantee continued to be offset by high premium expense for the guarantee. In addition to the additional premium of € –311 million included in loan loss provisions the base premium payable for the guarantee facility granted, which amounted to € –355 million for the first nine months of 2015, had an adverse impact. Guarantee fees amounted in total to € –666 million for the first nine months of the year. However, the relief provided by the guarantee (gross compensation) amounted in total to € 658 million. This led to the positive effect arising from the gross hedging being offset by the very high guarantee premiums.

Further expense was incurred as a result of the recognition of provisions of € –40 million for the European bank levy payable for the first time in 2015 and € –14 million for the contribution to the deposit guarantee scheme of the Savings Banks Finance Group in the context of the new requirements for European deposit insurance schemes. Both levies have already been recognised in the first quarter. Provisions were also recognised for tax issues from the distant past, which are described in detail in the Interim Report as at 30 June 2015.

Core Bank earnings benefit from customer business – adverse impact of loan loss provisions for shipping loans

The Core Bank, in which the strategic divisions of the Core Bank are combined, generated an increase in total income to € 598 million for the first nine months of the year 2015 (same period of the previous year: € 563 million), which is attributable to significantly higher net interest income. This reflected the positive income impact from the increase in new business concluded at stable margins, although new business decreased in the third quarter, as well as the non-recurrence of exceptional charges recognised in the previous year and a positive one-off hedge accounting effect recognised in the first quarter. This was offset by the negative impact of loan principal repayments.

Significantly lower contributions from net trading income and net income from financial investments had a negative effect on the Core Bank's earnings trend. Higher loan loss provision expense recognised for the legacy portfolio of the shipping loan recovery unit assigned to the Core Bank had an adverse impact, although this was largely compensated for by the guarantee. Loan loss provisions recognised in previous periods for corporates were released on a net basis. The Core Bank generated net income before taxes of € 123 million after taking into account the amount of € –30 million of the bank levy to be allocated to the Core Bank and the annual contribution of € –14 million to the deposit guarantee scheme (same period of the previous year: € 139 million).

Net income of the Restructuring Unit decreases as a result of the portfolio reduction and lower debt waiver

The Restructuring Unit generated a loss before taxes of € –13 million, including consolidation effects, in the first nine months of 2015 (same period of the previous year: € 321 million). This significant reduction is attributable to the lower relief provided by the debt waiver of the guarantors compared to the first nine months of the previous year.

The ongoing and accelerated winding down of the portfolio also had a noticeable impact, which led to further decrease in the interest-bearing loan volume. The reduction in the US dollar exposure in particular was stepped up over recent months in order to reduce the impact of the volatile US dollar on funding and liquidity and strengthen the liquidity position. Net income from financial investments also remained below the level of the same period of the previous year, in which higher earnings contributions from the sale of securities and equity holdings were recorded. Risks relating to equity holdings also had an adverse impact. Higher loan loss provision expense for shipping loans also had a negative effect, which was, however, partially offset by the reversal of loan loss provisions for international real estate clients and corporates.

Further details on the causes underlying the business performance are discussed below in the “Net earnings”, “Net assets and financial position” and “Segment results” sections.

NET EARNINGS

Total income remained stable at the level of the previous year

Total income was above plan, and amounted to € 853 million for the first nine months of 2015 compared to € 879 million in the same period in the previous year.

Total income for the first nine months was primarily driven by net interest income, which increased sharply to € 612 million compared to € 400 million in the same period of the previous year. New business concluded at mostly stable margins and loan prolongations had a positive effect, although new business volume decreased in the third quarter compared to the previous quarters. In addition, the exceptional items recognised in the previous year had a significant impact on the increase and those recognised in the period under review to a lesser extent. The positive income effect from customer business was partially offset by the increased reduction in the Restructuring Unit’s portfolio and a higher level of loan principal repayments.

The exceptional items, which contributed to the increase in net interest income, include, inter alia, the effect of the adjustment to the effective interest rate applied to hybrid instruments, which had an adverse impact on the results for the same period of the previous year. A one-off hedge accounting effect relating to interest rate movements over recent months was also recognised in the current year. It resulted in net interest income of € +49 million. This was offset by a corresponding charge of € –7 million recognised in net trading income.

Net commission income amounted to € 88 million as at 30 September 2015 compared to € 103 million as at the same reporting date of the previous year. The decrease is primarily attributable to lower restructuring fees in the Restructuring Unit associated with the significant portfolio reduction.

Net trading income made a contribution of € 87 million to total income in the first nine months of 2015 (same period of the previous year: € 131 million). The trend is characterised by measurement effects caused by volatility in the financial and currency markets. Measurement results recognised on EUR/USD basis swaps (€ 64 million), increases in the value of debt instruments (€ 16 million) and operating successes in the customer business had a positive effect. Net trading income of € –61 million was adversely impacted by foreign exchange rate effects (especially the currency translation arising from the hedging of equity holdings denominated in foreign currency). Net operating trading income including hedging effects amounted to € 73 million.

Net income from financial investments amounted to € 54 million. It was significantly below that disclosed in the same period of the previous year (€ 267 million), which had benefited substantially from reversals of impairment losses and gains on disposal realised as part of liquidity management and sales of equity holdings. The measurement and disposal of debt instruments also had a positive overall impact in the first nine months of 2015, albeit to a lesser extent. The earnings contributions were achieved within the framework of liquidity management as well as restructuring activities. Risks relating to equity holdings also had a negative impact on net income from financial investments.

Higher loan loss provisions compensated for by the guarantee

Loan loss provisions for the first nine months of 2015 continued to be dominated by significant additions to the shipping portfolio to reflect the ongoing very difficult market developments. Loans for bulkers accounted for most of the additional loan loss provision expense for legacy portfolios in the shipping portfolio due to the weak charter rate trend in this segment.

Restructuring measures carried out in and planned for the Restructuring Unit's shipping portfolio and the shipping loan recovery unit in the Core Bank (Nautilus structures), which were taken to further reduce the high risk legacy loans, also had an impact, whereas the risk trend in the other divisions remained insignificant. Despite additions recognised in the third quarter, the corporates and real estate clients portfolios were considerably affected by the reversals of loan loss provisions, which were based on loan principal repayments and improved risk assessments.

Overall, this produced a clearly higher than planned net loan loss provision expense of € –306 million as at 30 September 2015 on a pro rata basis due to the measures taken in the field of the legacy portfolios in the shipping portfolio before taking into account the compensation effect of the guarantee (same period of the previous year: € –256 million).

The loan loss provisions especially recognised for legacy portfolios continued to be largely compensated for by the guarantee in the first nine months of 2015. Gross compensation for the guaranteed portfolio amounted to € 371 million after taking currency translation gains and losses into account, which was offset by additional premium expense of € –311 million for the reporting period. The debt waiver by the guarantors resulted in an income impact of € 289 million.

After taking into account the compensating effects under the guarantee, loan loss provision income of € 43 million was disclosed in total, which, as planned, is substantially below the previous year's level of € 387 million.

LOAN LOSS PROVISIONS BEFORE AND AFTER EFFECT OF THE GUARANTEE

(€ m)	**January – September 2015**	January – September 2014
Loan loss provisions before currency translation and compensation (net), of which:	**– 306**	**– 256**
Core Bank	**– 239**	**– 231**
Shipping (incl. recovery unit)	– 290	– 180
Real Estate Clients	– 5	– 1
Corporates	55	– 52
Other	1	2
Restructuring Unit	**– 67**	**– 25**
Shipping loans	– 155	– 44
Real estate loans	37	9
Corporate loans	65	9
Other	– 14	1
Loan loss provisions after currency translation and compensation (net), of which:	**43**	**387**
Core Bank	– 30	2
Restructuring Unit	73	385

The hedging effect of the guarantee has still not given rise to a cash drawdown. The first loss piece of the Bank (€ 3.2 billion) was utilised by actual payment defaults in the amount of € 1.8 billion as at the reporting date (losses submitted for invoicing). As at the reporting date, HSH Nordbank AG is still assuming in its long-term loan loss provision planning that payment defaults in the portfolio covered by the second loss guarantee will exceed the first loss piece by the Bank of € 3.2 billion from 2019 onwards and will then result in actual payments being made under the second loss guarantee. After deducting the Bank's first loss piece, the expected drawdown of the guarantee based on the current long-term loan loss provision planning as at 30 September 2015 will total € 2.1 billion by 2025.

The effect of the implementation of the informal agreement on the net assets, financial position and earnings is not included in these interim financial statements as at 30 September 2015 given that the informal agreement was reached in October 2015. Please refer to the "Outlook" section for more information on this issue.

The expected actual payments under the guarantee are offset by the significant fees already paid for the guarantee, through which HSH Nordbank is making a high contribution to compensating the federal states of Hamburg and Schleswig-Holstein for the state aid granted.

Since 2009 HSH Nordbank has recognised total premium expense of € 3.5 billion in the income statement up to 30 September 2015, which includes the base and additional premiums in loan loss provisions disclosed in the compensation line item and the debt waiver. This excludes a one-off payment of € 0.5 billion made in 2011, which was imposed by the EU Commission and subsequently received back by the Bank in the form of a capital increase.

Premiums recognised as expense by HSH Nordbank and payable to the guarantors (excluding the one-off payment of € 0.5 billion) have increased to € 2.6 billion as at 30 September 2015 (current base premium plus subsequent base premium payment for the replenishment of the guarantee facility in the middle of 2013).

Noticeable reduction in administrative expenses

Administrative expenses decreased at a higher than planned rate to € –447 million for the first nine months of the year 2015 (same period of the previous year: € –498 million.) This reflects the cost-savings successes achieved under the ongoing cost reduction programme.

Personnel expenses, which decreased from € –213 million to € –205 million, were mainly affected by the number of employees that was reduced even further, according to plan. Compared to the end of 2014, the number of employees within the Group declined by 130 to 2,449 (computed on a full-time equivalent (FTE) basis).

Operating expenses (excluding depreciation/amortisation) also decreased markedly to € –208 million compared to € –230 million in the same period of the previous year. Savings resulted in particular from reduced building costs. In the same period of the previous year costs for the ECB special audit were recognised. Savings continue to be partly offset by high costs incurred in respect of changes in the regulatory and accounting requirements.

Depreciation of property, plant and equipment and amortisation of intangible assets decreased to € –34 million compared to € –55 million in the same period in the previous year. Reduced amortisation for software already fully written down and lower impairment losses for equity holdings, among other things, had a positive impact.

Result from restructuring amounted to € –18 million (same period of the previous year: € 2 million) and includes expenses incurred in connection with the ongoing cost reduction programme.

Further expense was incurred as a result of the recognition of a provision for the European bank levy payable for the first time in 2015. The provision of € –40 million was already recognised in full in the first quarter.

Other operating income amounted to € 74 million (same period of the previous year: € 80 million). This includes the expenses for the contribution of € –14 million to the deposit guarantee scheme of the Savings Bank Finance Group. Costs were also incurred relating to investigations in connection with the sale of the private client business in Luxembourg in 2011 (details are set out in the Risk Report of the Interim Report as at 30 June 2015).

On the other hand, other operating income benefited from income arising on the deconsolidation of two subsidiaries (K/S Angered, Copenhagen; LCG Finance, Luxembourg), offset by the expense recognised on the complete write-off of the goodwill arising on the first-time consolidation of a company in the consolidated financial statements (GmbH Altstadt Grundstücksgesellschaft, Wiesbaden).

High base premium expense

In addition to the guarantee premium expense of € –311 million recorded in loan loss provisions an expense of € –355 million was incurred for the base premium for the first nine months of the year (same period of the previous year: € –390 million), which is disclosed under the expenses for government guarantees line item. The reduction in the base premium expense compared to the same period of the previous year is attributable to a lower amount of the subsequent payment of the base premium in connection with the replenishment of the guarantee facility in the middle of 2013 being recognised through profit or loss according to plan.

Positive Group net income for the first nine months

Overall, HSH Nordbank generated above-plan net income before taxes of € 110 million for the first nine months of 2015 in view of the operating developments (same period in the previous year: € 460 million). After deducting income tax expense, Group net income in the amount of € 24 million remained (same period of the previous year: € 333 million).

The return on equity for the Group calculated on the basis of net income before taxes is 3% (same period of the previous year: 13%). The cost-income ratio improved to an above-plan 48% due to the decrease in administrative expenses on a slight decrease in total income (same period of the previous year: 52%).

The income taxes line item includes deferred income tax expense of € –87 million in line with the plan resulting from the release of deferred tax assets on loss carryforwards and temporary measurement differences between the HGB and IFRS financial statements. This results in total tax expense of € –86 million including current taxes.

Tax risk is a component of legal risk and mainly results from the fact that the binding interpretation of rules that can be interpreted in specific cases may only be known after several years due to the long period between tax audits. The tax audits have not yet been finalised for the years starting from 2003.

HSH Nordbank recognised net additions of € 15 million (including interest of € 3 million) to the provisions for tax risks in the first nine months of the year 2015. The provisions totalled € 174 million as at the reporting date (31 December 2014: € 159 million).

The Risk Report in the Interim report as at 30 June 2015 contains further information on the risks relating to the regulatory allocation of equity positions to the banking book for the 2003–2006 audit period, for which provisions had already been recognised in the first half of 2015, and charges incurred in connection with the sale in 2011 of the private client business of HSH Nordbank Private Banking S.A. (legal successor: HSH Nordbank Securities S.A.).

NET ASSETS AND FINANCIAL POSITION

Further reductions in total assets

Total assets also decreased further in the third quarter 2015 to € 104,896 million as at 30 September 2015 (31 December 2014: € 110,082 million). The increased winding down of risk positions in the Restructuring Unit made a positive contribution to this.

Material items on the asset side of the statement of financial position decreased. Loans and advances to banks amounted to € 5,226 million (31 December 2014: € 6,915 million). This reduction is attributable to lower deposits at other banks both call deposits as well as time deposits and loan notes. Loans and advances to customers also decreased slightly at € 64,843 million (31 December 2014: € 67,336 million). New business transacted in the Core Bank was more than offset by the increased winding down of portfolios in the Restructuring Unit and loan principal repayments in the Core Bank's customer divisions.

Total loan loss provisions (after compensation effect) have more than halved to € –993 million due to higher utilisation and an increase in the compensation item (31 December 2014: € –2,061 million). Excluding the compensation, total loan loss provisions decreased slightly to € –5,700 million (31 December 2014: € –6,135 million). The increase in the cash reserve to € 7,416 million (31 December 2014: € 5,967 million) had an offsetting effect on the reduction in total assets. This was attributable to the measures taken as part of liquidity management.

Financial fixed assets decreased to € 16,994 million (31 December 2014: € 18,688 million). Both the sales of equity holdings and winding down of securities portfolios, including the credit investment portfolio, had a noticeable impact in this regard.

On the liability side, liabilities to banks decreased in particular to € 11,320 million (31 December 2014: € 14,547 million). Loan note volume as well as call and term deposits placed by other banks were lower than as at the 2014 year end. Liabilities to customers increased to € 46,262 million (31 December 2014: € 43,165 million). Call and time deposits placed by institutional investors increased in particular. Securitised liabilities totalled € 24,783 million (31 December 2014: € 27,634 million). The decrease is primarily attributable to maturities of liabilities under the guarantor liability.

Reported equity capital increased to € 4,788 million (31 December 2014: € 4,672 million). Lower losses arising on the remeasurement of pension provisions compared to the 2014 year end due to the slight increase in market interest rates had a positive impact.

Business volume decreased to € 114,099 million (31 December 2014: € 119,879 million). This is mainly a result of lower total assets. Whilst sureties and guarantees increased slightly to € 2,781 million (31 December 2014: € 2,716 million), irrevocable loan commitments decreased to € 6,422 million (31 December 2014: € 7,081 million).

Solid capital ratios as at 30 September 2015

REGULATORY RATIOS

taking the quarterly results into account

(%)	**30.09.2015**	31.12.2014
Total ratio/regulatory capital ratio	18.4	18.7
Tier 1 capital ratio	14.1	14.4
CET1 ratio plus buffer from additional premium	10.1 (+ 2.7 pp)	10.0 (+ 2.6 pp)
CET1 ratio plus buffer from additional premium (full implementation of Basel III)	10.0 (+ 2.0 pp)	10.0 (+ 1.3 pp)
Leverage ratio	5.1	4.8

(€ bn)	**30.09.2015**	31.12.2014
Regulatory capital	7.1	7.4
of which: Tier 1 capital (core capital)	5.4	5.7
of which: CET1 capital	3.9	4.0
of which: additional Tier 1 capital	1.5	1.7
of which: supplementary capital (Tier 2 capital)	1.7	1.7
Risk assets (RWA)	38.4	39.5
of which: risk assets counterparty default risk	28.9	30.8

CET1 ratio at 10.1% plus buffer of 2.7 percentage points from the additional premium

The capital ratios disclosed as at the end of the first nine months of 2015 remained at a solid level. The CET1 ratio (under the Basel III transitional arrangement, phase-in) was 10.1% plus the buffer of 2.7 percentage points, which is based on a potential waiver of additional premiums by the guarantor, under which an appropriate CET1 ratio is to be ensured (capital protection clause).

Even based on the assumption of full implementation of the Basel III rules (fully loaded) HSH Nordbank's CET1 ratio of 10.0%, as scheduled (plus a buffer of 2.0 percentage points from the potential waiver of the additional premium by the guarantor) was at a solid level.

As part of the monitoring process in the Banking Union, HSH Nordbank was assigned an individual minimum capital ratio by the ECB on the assumption that Basel III is fully implemented, which is reviewed annually in the SREP process. This was exceeded as at 30 September 2015.

RWA have decreased compared to 31 December 2014 by € 1.1 billion to € 38.4 billion. The increase in RWA due to new business disbursements and the appreciation in the US dollar (EUR/USD 1.12 as at 30 September 2015 versus EUR/USD 1.21 as at 31 December 2014) is more than offset by the RWA reduction attributable to the portfolio reduction.

In addition to the buffer from the additional premium an additional guarantee buffer is provided by applying the regulatory minimum risk weight of 20% to the senior tranche of the second loss guarantee. Despite an increase in the nine month period the risk weight in mathematical terms is significantly lower as at 30 September 2015.

The leverage ratio of HSH Nordbank was a solid 5.1% as at 30 September 2015 (preliminary; 31 December 2014: 4.8%).

The figures reflect the results of the period of the first nine months of 2015 (same period calculation).

Funding activities expanded

HSH Nordbank has driven forward its funding strategy as planned in the reporting period by using different refinancing sources.

The issuance of secured debt instruments continues to be a core focus of the Bank's refinancing mix. Ship mortgage bonds (Pfandbriefe) were placed in the total amount of some € 800 million and a benchmark mortgage bond (Hypothekenpfandbrief) of € 500 million was issued in the market. It has a term of seven years and thereby increases the maturity profile of the Bank's benchmark bonds outstanding.

Asset-based funding (ABF) is a further important refinancing instrument for the Bank. Following the conclusion of several successful transactions the Bank is preparing further refinancing arrangements based on different asset classes. Furthermore, primary US dollar refinancing was strengthened by the conclusion of longer-term repo transactions.

The increase in the primary refinancing of US dollar transactions reduces the need for derivative foreign currency refinancing by means of EUR/USD basis swaps and thereby reduces the impact of the US dollar on the liquidity position.

HSH Nordbank is nevertheless making substantial efforts to further reduce the proportion of legacy portfolio assets denominated in US dollar on the balance sheet in order to reduce the impact of the changes in exchange rates on liquidity and to strengthen the liquidity position.

A further focus in the first nine months was the sale of bond products for the savings banks' client business and other associations and financial institutions as well as the placement of bonds with institutional investors. The total volume of uncovered bonds (senior unsecured) issued during the first nine months of the year amounted to almost € 2.5 billion.

Besides the issuing activities the increase in deposit levels made a contribution to the refinancing of the business. The volume amounted to € 35 billion as at 30 September 2015 (31 December 2014: € 31 billion). Furthermore, as at the end of the quarter, the Bank holds liquidity reserves in the form of collateral eligible for refinancing at central banks and credit balances at central banks, in the total amount of about € 21 billion, which it can access at any time.

Most of the bonds covered under the guarantor liability mature in 2015 (€ 19 billion), of which about € 9 billion has already been redeemed as at 30 September 2015. Segment assets of the Restructuring Unit were reduced at the same time by € 5 billion in this period. The maturities in the fourth quarter of the remaining € 10 billion of bonds covered by the guarantor liability are to be offset by the further reduction of the legacy portfolios, implementation of the upcoming funding measures and excess liquidity built up over the previous quarters.

HSH Nordbank's liquidity position has been solid in the reporting period despite the challenges presented by the increased volume of maturing liabilities covered by the guarantor liability and US dollar volatility. The measures stepped up in the year to date to reduce risk positions, thereby releasing liquidity, had a positive impact. The liquidity ratio as defined in the German Liquidity Regulation (LiqV) declined only slightly to 1.94 as at the end of the third quarter (31 December 2014: 1.99). It was therefore within plan and significantly above the regulatory minimum requirements.

In view of the upcoming maturities of refinancing arrangements the Bank expects that, in line with the plan, the liquidity position will be adversely impacted temporarily and the regulatory liquidity ratios will temporarily decrease as at the 2015 year end.

The rating agencies, Moody's and Fitch, assess the structural measures agreed as part of the informal agreement reached between the EU Commission and HSH Nordbank's majority owners as positive and see it as a strengthening of the Bank's financial and risk profile. The agencies have differences in emphasis regarding the privatisation requirement.

Moody's reacted to the decision on the state aid proceedings by upgrading the long-term rating from "Baa3 negative" to "Baa3 developing" and stressed that the structural measures should have a positive impact on the earnings and risk profile. The overall assessment reflects both the structural improvements, which have to be analysed in detail according to Moody's, and the medium-term uncertainty surrounding the privatisation requirement.

Fitch improved the outlook for HSH Nordbank's stand-alone rating and therefore assesses the structural measures agreed in Brussels as positive. Notwithstanding this, the agency changed the outlook for the long-term rating from "BBB–, stable" to "BBB–, negative" with a view to the agreed medium-term privatisation and weighted in particular the uncertainty regarding the future ownership structure.

Further information on HSH Nordbank's liquidity and funding can be found in the Interim Report as at 30 June 2015 and in the "Outlook" section of this Financial Information concerning the impact of the EU proceedings.

SEGMENT RESULTS

SEGMENT OVERVIEW JANUARY TO SEPTEMBER 2015[1)]

(€ m)		Shipping, Project & Real Estate Financing	Corporate & Markets	Corporate Center	Consoli-dation Core Bank	**Total Core Bank**	Restructur-ing Unit	Consoli-dation Restructur-ing Unit	**Total Restruc-turing Unit**
Total income	**2015**	**411**	**334**	**– 45**	**– 102**	**598**	**213**	**42**	**255**
	2014	363	363	– 90	– 73	563	318	– 2	316
Loan loss provisions before currency translation gains or losses	**2015**	– 295	54	–	2	– 239	– 67	–	– 67
and compensation	2014	– 181	– 52	–	2	– 231	– 25	–	– 25
Administrative expenses	**2015**	– 114	– 228	46	4	– 292	– 155	–	– 155
	2014	– 119	– 233	44	– 5	– 313	– 185	–	– 185
Net income	**2015**	**7**	**167**	**35**	**– 86**	**123**	**43**	**– 56**	**– 13**
before taxes	2014	66	86	3	– 16	139	171	150	321
Segment assets (€ bn)	**30.09. 2015**	26	30	17	2	75	26	4	30
	31.12. 2014	25	31	18	2	76	31	3	34

[1)] Since the 2014 year end the gain/loss arising on the currency translation of loan loss provisions is no longer being allocated to the segments but shown in the Core Bank and Restructuring Unit consolidation columns. The previous year's figures were adjusted for purposes of comparability.

Core Bank earnings benefit from customer business – adverse impact of loan loss provisions for shipping loans

The Core Bank, in which the strategic divisions of HSH Nordbank are combined, generated an increase in net income to € 598 million for the first nine months of the year 2015 (same period of the previous year: € 563 million), which is attributable to significantly higher net interest income. This reflected, inter alia, the positive income impact from the increase in new business at stable margins, although new business declined in the third quarter, and non-recurrence of exceptional charges recognised in the previous year. Principal repayments and significantly lower contributions from net trading income and net income from financial investments had a negative effect on the Core Bank's earnings trend. Risks relating to equity holdings also had an impact. Higher loan loss provision expense recognised for the legacy portfolio of the shipping loan recovery unit assigned to the Core Bank had an adverse impact, although this was largely compensated for by the guarantee. Loan loss provisions recognised in previous periods for corporates were released on a net basis.

The Core Bank generated net income before taxes of € 123 million after taking into account the amount of € –30 million of the bank levy to be allocated to the Core Bank and the annual contribution of € –14 million to the deposit guarantee scheme for the first time in 2015 (same period of the previous year: € 139 million). Against the backdrop of the business performance and movements in the USD exchange rate (portfolio effect: € +1.1 billion), total assets of the Core Bank amounted to € 75 billion as at 30 September 2015 (31 December 2014: € 76 billion). The increase attributable to new business was offset by scheduled and unscheduled loan principal repayments.

The Corporate Clients, Energy & Infrastructure as well as Wealth Management divisions were merged into a new Corporate Clients division as at 1 July 2015 in order to focus on the business and streamline the organisational structure.

Further information is contained in the explanatory comments on the individual segments.

Segment results of the Core Bank

Good earnings trend in Shipping, Project & Real Estate Financing segment – loan loss provisions increased for shipping portfolio

Business performance successes were reflected in the Shipping, Project & Real Estate Financing segment in an increase in total income to € 411 million compared to € 363 million in the same period of the previous year. However, the continuing need to restructure the shipping loan recovery unit (legacy portfolio) assigned to the Core Bank resulted in an increase in loan loss provisions to € –295 million in the segment before relief provided by the guarantee and currency translation gains and losses (same period of the previous year: € –181 million). As a result, income before taxes of € 7 million of the Shipping, Project & Real Estate Financing segment was lower than that of € 66 million for the same period of the previous year.

Net income before taxes of the Shipping division decreased to € –290 million (same period of the previous year: € –180 million) due to the increase in loan loss provision expense to € –134 million (€ –44 million) in the shipping loan recovery unit. New business was deliberately restricted over recent months due to the continuing very difficult market environment, so that total new business volume of € 0.7 billion remained for the first three quarters (previous year: € 1.0 billion). The focus was on a further diversification of the portfolio through domestic and international commitments with counterparties with a good credit standing.

The Real Estate Clients division made the largest earnings contribution in the segment with € 135 million compared to € 107 million in the same period in the previous year. This was primarily driven by new business, which increased in total to a higher than planned amount of € 3.7 billion for the nine-month period of this year (same period of the previous year: € 3.2 billion), although the increase in new business in the third quarter was not as strong as in previous quarters. The successful business performance is based on the Bank's good position in this sector in conjunction with the favourable market situation in Germany. The focus continued to be on West German metropolitan areas. Business in the core region of Northern Germany was stable at the same time. Business in the core region of Northern Germany was stable at the same time.

The Corporate Finance product division, which has been assigned to the Shipping, Project & Real Estate Financing segment since the beginning of 2015, has successfully supported the client business and made in total a higher contribution to earnings than in the same period in the previous year. Under the Bank's business management policy almost all of the net income of Corporate Finance is disclosed in the customer divisions.

Net income of Corporates & Markets segment strengthened by good risk situation for corporate loans

Net income for the Corporates & Markets segment increased significantly to € 167 million for the first nine months (same period of the previous year: € 86 million). This is primarily attributable to the good risk situation in the segment's loan portfolio as at the reporting date, which allowed reversals of loan loss provisions to be recognised. On the other hand, new business transacted remained below the previous year's level and below plan.

The Corporates division, in its newly established structure that includes the business fields Energy & Utilities, Logistics & Infrastructure, Healthcare Industry, Wholesale and Foreign Trade, Food Industry, Industry and Services as well as Wealth Management, generated significantly improved net income before taxes of € 210 million for the first nine months (same period in the previous year: € 112 million). This is mainly attributable to the net release of loan loss provisions recognised in previous periods due to the solid business situation of many corporates. There was also a tangible improvement in cross-selling business with services provided in addition to classical loan financing. The subdued corporate demand for financing continued to have an adverse impact. New loan business of € 1.9 billion remained below the level of the same period of the previous year (€ 2.8 billion) and the Bank's plan while complying with strict risk and income requirements.

The Energy & Utilities business field contributed transactions totalling € 0.5 billion to the development of new business in the Corporates division. The focus was on structured project financing in Germany and the rest of Europe and on financing arrangements for various public utilities. Wind energy installations on land (onshore projects), which are mainly located in the core market of Germany, accounted for most of the financing projects completed in the Energy division. Onshore wind projects were also financed in Finland, France and Ireland.

The Logistics & Infrastructure business field was able to further diversify its portfolio with projects, inter alia, in the railway, pipeline, airports and network sectors both in Germany and the rest of Europe (new business volume: € 0.4 billion).

The Wholesale and Foreign Trade business field entered into new commitments in the international commodity trading and textile sectors in particular on the basis of its industry specialisation and successfully developed business with services specific to the business field (including documentary business, hedging of exchange rates). New customers were acquired in the Food Industry business field throughout Germany by focusing on foodstuffs trading and production. Together, the Wholesale and Foreign Trade and Food Industry business fields were able to conclude new business worth € 0.3 billion.

Providing assistance in challenging structuring mandates was the focal point in the Industry & Services business field in the first nine months. These were concluded both with new customers and existing customers of small- and medium-sized enterprises. In the Healthcare Industry business field new business was concluded throughout Germany primarily in specialist and rehabilitation clinics, nursing homes and medical technology. New business volume of the Industry & Services business fields amounted in total to € 0.7 billion.

The Wealth Management business field continued to make a positive contribution to segment earnings with solid income generated by securities business transacted with customers as well as a stable deposit business.

The Capital Markets and Savings Banks & Institutional Clients divisions together generated a net loss of € –43 million (same period of the previous year: € –26 million), which is mainly attributable to a continued high level of administrative expenses due to the existing structure. Sales of risk management products benefited from volatility in the financial and currency markets, but remained below the previous year's level due to subdued customer demand, which may also be attributed to the uncertainty surrounding the outcome of the EU proceedings. Earnings were also somewhat adversely impacted by developments in the securities portfolio due to interest rate movements in the reporting period. New issue business and customer deposits relating to business conducted with savings banks and institutional clients continued to make a significantly positive contribution. Overall, income generated by the Capital Markets & Institutional Clients divisions was below total income for the same period of the previous year, which also benefited from sales of financial investments.

Corporate Center segment

The net income of the Corporate Center segment, which includes the overall bank positions and administration and service divisions (including Transaction Banking since the end of 2014), increased to € 35 million compared to € 3 million in the same period of the previous year. An exceptional item arising on the calculation of the net income from hybrid financial instruments in particular had an adverse impact in the first nine months of the previous year. Risks relating to equity holdings also had a negative effect in the reporting period of this year.

Transaction Banking generated a sharp increase in net income to about € 17 million in the first nine months of 2015 (same period of the previous year: € 7 million). The positive developments in the division are attributable to a more extensive use of products by customers, which resulted in a significantly higher level of income from payment transactions, account management and foreign trade. The division was thus able to make a tangible contribution to the Bank's cross-selling income. Under the Bank's business management policy net income of the Transaction Banking product division is disclosed in the customer divisions.

Net income for the Core Bank takes consolidation effects into account

The compensation effect under the second loss guarantee including the effect of the debt waiver had a positive impact on the consolidation items of the Core Bank. The currency translation loss arising on loan loss provisions, which is allocated to consolidation items, is also compensated by the guarantee, provided that the currency positions relate to amounts covered by the guarantee.

A special effect relating to hedge accounting also had an overall positive impact. Net trading income was more adversely impacted than in the previous year by measurement effects to the extent that these were not allocated to the business segments – specifically currency translation results arising on the hedging of certain assets denominated in foreign currency. In addition, the recognition of a provision for the European bank levy had a negative effect. The net loss relating to consolidation items amounted to € –86 million (same period of the previous year: € –16 million) after deducting the result from restructuring and expenses for government guarantees, which are also not to be allocated to the operating business.

The Core Bank generated net income before taxes of € 123 million (same period of the previous year: € 139 million). This gives a return on equity of the Core Bank of 8% (same period of the previous year: 9%). The cost-income ratio of the Core Bank improved to 47% (same period of the previous year: 54%).

Net income of the Restructuring Unit decreases as a result of the portfolio reduction

The Restructuring Unit generated net income before taxes of € 43 million at the segment level for the first nine months of 2015 (same period of the previous year: € 171 million). The reduction in net income is primarily attributable to the significant reduction in the portfolio, which resulted in a further decrease in the interest-bearing loan volume. The reduction of the US dollar exposure in particular was also stepped up over recent months. Net income from financial investments also remained below the level of the same period of the previous year, in which higher earnings contributions from the sale of securities and equity holdings were recorded. In addition, higher loan loss provision expense for shipping loans also had a negative effect, which was, however, partially offset by the reversal of loan loss provisions for international real estate and corporate loans.

Net income before taxes amounted in total to € –13 million for the Restructuring Unit including consolidation effects, in particular due to the positive guarantee effect, and after taking restructuring and guarantee costs into account (same period of the previous year: € 321 million). Besides the decrease in total income due to the winding down of the portfolio and lower gains on disposals, this significant reduction is mainly attributable to the lower relief provided by the debt waiver of the guarantors compared to the first nine months of the previous year.

OUTLOOK

The following section should be read in conjunction with the other chapters in this financial information and the 2014 Group Management Report of HSH Nordbank as well as the Interim Report of HSH Nordbank as at 30 June 2015. The forward-looking statements contained in this financial information are based on assumptions and conclusions based on information available to HSH Nordbank at the time of preparation of the report. The statements are based on a series of assumptions that relate to future events. The occurrence of future events is subject to uncertainty, risks and other factors, many of which are beyond HSH Nordbank's direct influence. Therefore actual events may differ considerably from the following forward-looking statements below.

Positive effect of the informal agreement reached with the EU Commission on the financial and risk profile

In the informal agreement reached with the EU Commission, HSH Nordbank's federal state owners and the EU Commission agreed to measures, the implementation of which should have a very positive structural effect on the financial and risk situation of HSH Nordbank's operating company. This should significantly improve the conditions for a sustainable long-term business model for the Bank.

The intended measures will have a substantial relieving effect on the net assets, financial position and earnings. It is intended to relieve HSH Nordbank's operating company of legacy portfolio items in the total amount of € 8.2 billion, thereby reducing its total assets. The amount of the Bank's non-performing loans (impaired loans and loans with arrears of more than 90 days) will decline as a result of this measure by more than half from the current level of about € 15 billion. The NPL (non-performing loan) ratio will improve substantially as a consequence, which is not least a key risk parameter for the banking supervisory authorities and capital markets. The largest portion of the portfolios to be sold is accounted for by problematic shipping loans, which will reduce the impact of the very difficult shipping market and volatile US dollar on the Bank's operating performance.

There will also be a material impact in future on the operating company's income statement. The sale of assets at market prices could initially result in a higher need for loan loss provisions. However, these would be invoiced under the present conditions of the continuing second loss guarantee facility and accordingly compensated for in the income statement. The second loss guarantee will probably be drawn down in a greater amount than expected as a result of the sale of the legacy portfolio items and at an earlier date than anticipated in the current plan as at 30 September 2015.

The base premium payable by the future operating company will be reduced from the current 4.0% to 2.2%. In future, this will only be payable on the undrawn portion of the guarantee that decreases as the guarantee is drawn down and after taking the disposal of legacy assets into account and no longer on the guarantee facility of € 10 billion. In addition, the current additional premium will no longer be charged to the operating company. This reduction in guarantee fees will substantially improve its results. The operating company will therefore be in a better structural position in future to strengthen its capital by retaining profits.

The operating company's capital backing is to be substantially strengthened by improved profit retention opportunities. As the assets to be sold mainly comprise US dollar transactions, the sensitivity of capital ratios to the volatile US dollar will also decrease noticeably.

Furthermore, the operating company's funding requirements, particularly in the US dollar business, will also decrease due to the removal of loan transactions from the balance sheet. This also strengthens the Bank's liquidity position affected by movements in the US dollar.

Implementation of the informal agreement

HSH Nordbank together with the federal state owners are aiming to create by the 2015 year end the conditions necessary to reflect the effects of the structural measures as far as possible in the annual and consolidated financial statements for 2015 under the applicable accounting rules.

In addition to the arrangements with the federal states necessary for this the structural measures are to be defined in further detail in the months to come and their effect on, inter alia, loan loss provisions, the drawdown under the guarantee, guarantee premiums, tax position and measurement of hybrid instruments individually specified. The essential basis for the aim of incorporating the agreed measures in the 2015 consolidated financial statements is a plan that is to be developed that reflects the upcoming restructuring of the Bank and sets out the expected effects on the net assets, financial position and earnings in the years to come.

The new planning to be prepared in respect of the 2015 annual and consolidated financial statements will be at the same time a component of the restructuring plan that is scheduled to be submitted to the EU Commission in the first quarter 2016 and will therefore form the basis for the final decision.

Decisions of the parliaments of Hamburg and Schleswig-Holstein are required for the implementation of the informal agreement.

Opportunities and risks in the EU state aid proceedings

Following the informal agreement reached in October 2015 the final conclusion of the EU state aid proceedings and successful implementation of the informal agreement would create a sound basis for establishing a sustainable long-term business model for the Bank and facilitating a successful privatisation process.

In the event that the conditions for incorporating the informal agreement into the annual and consolidated financial statements are not created by 31 December 2015 due to a lack of time, it would not be possible to achieve the expected relieving effect at that time. This could lead to a temporary adverse impact on the Bank's income and risk profile and regulatory capital ratios.

Overall, the implementation of the informal agreement will result in future in substantially changed plans and forecasts and will also impact the accounting processes and regulatory ratios.

If the informal agreement is not successfully implemented, or not in full or not in the specified time frame, this could adversely impact HSH Nordbank AG's funding opportunities and costs, trigger outflows of short-term funds or significantly restrict funding options. In this case, additional measures will be required to strengthen the liquidity situation.

The replenishment of the second loss guarantee is technically classified by the EU Commission as so-called resolution aid, and HSH Nordbank is regarded as being not viable in terms of state aid prior to the restructuring. The operating company is to be restructured in such a way that enables the successful sale of this company within the time frame specified by the EU Commission. The sale will be made in an open, competitive and transparent process, in which other Landesbanks may also participate. The EU Commission will perform a final assessment of the success of the sales process. Following the conclusion of the proceedings the Commission will decide on the viability of the new company in the light of the privatisation. If the sales process fails, the company will cease new business activities and wind down existing portfolios. The Recovery and Resolution Act could apply if the necessary conditions are met.

The assumption that the Bank is a going concern for accounting and measurement purposes is based in particular on the fact that

(i) the EU Commission now giving its final approval to the replenishment of the capital relieving guarantee and change in the guarantee agreement following the temporary approval given in July 2013 in accordance with the informal agreement between the Directorate General for Competition of the EU Commission, the Federal Republic of Germany and the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein in the ongoing state aid proceedings regarding the replenishment of the second loss guarantee and the approval not being tied to conditions other than those contained in the informal agreement;

(ii) the decisions of the parliaments of Hamburg and Schleswig-Holstein required for the implementation of the informal agreement being taken on a timely basis and the informal agreement being implemented by HSH Nordbank AG and its owners in full and on a timely basis;

(iii) the operating company, HSH Nordbank AG, being sold at a positive sales price in an open, competitive and transparent process within up to 30 months following the final decision of the EU Commission in the state aid proceedings and the viability of the newly formed entity being confirmed by the EU Commission in a further decision in light of the privatisation. If the sales process fails or the assessment by the Commission finds that a viable entity has not emerged from the sale, HSH Nordbank must cease new business activities and wind down existing portfolios.

It is further required that acceptance by market participants and other relevant stakeholders necessary for the successful implementation of HSH Nordbank's business model and the requirements under the informal agreement is maintained or gained.

Sound basis for the operating business in the remainder of the year

Notwithstanding the implementation of the informal agreement and associated restructuring of HSH Nordbank, the Bank will consistently drive forward its operating activities in the months to come. The additional stability and planning certainty gained for customers as a result of the agreement reached with the EU Commission will be used in the market in the next months to further expand customer business.

The focus in the fourth quarter will also be on the accelerated winding down of the legacy portfolio items held in the Restructuring Unit in order, inter alia, to reduce the impact of the volatile US dollar on liquidity and funding. This may result in additional costs if losses are incurred that could not be charged under the guarantee. With this measure HSH Nordbank underlines its objective of quickly reducing the problematic legacy portfolio items.

Furthermore, the Bank will vigorously continue its efforts to improve cost efficiency and drive forward the related structural improvements, since good progress has already been made in this connection over the course of the current year and administrative expenses have been noticeably reduced despite the increasingly adverse impact of regulatory requirements.

There are still major challenges and uncertainties regarding future developments arising primarily from the continuing difficult situation in the shipping industry including the assessment of the long-term trend of loan loss provisions (also in the event of a sharper reduction in risk), volatility in the financial and currency markets (especially the US dollar), pending final approval of the replenishment of the guarantee facility in the EU state aid proceedings, changing assessments made by rating agencies regarding structural challenges in the areas of capital and funding (including expiry of the guarantor liability) as well as the further development of requirements of the European Banking Authority.

A ban on dividends (with the exception of dividends from the operating subsidiary to the holding company) as well as a ban on profit distributions in the hybrid capital instruments issued applies during the privatisation period. The Bank assumes that, on the successful conclusion of the privatisation process, it will again be able to pay dividends and make distributions on hybrid capital for the 2018 financial year at the earliest in 2019.

Positive net income for the year expected

The 2015 consolidated financial statements will be characterised in all likelihood by the accounting effects of the implementation of the informal agreement with the EU Commission. HSH Nordbank is assuming that the conditions necessary for reflecting the material effects of the structural measures to be implemented under the informal agreement in the 2015 consolidated financial statements will be created by the federal state owners. Against this backdrop HSH Nordbank is still expecting to generate positive net income before taxes for 2015 as a whole.

Given the informal agreement reached with the EU Commission HSH Nordbank is generally confident that, the operating business activities and, together with the federal state owners, the planned restructuring can be successfully taken forward over the coming months. In this way the basis for a sustainable realignment of the Bank will be created, which is intended among other things to convince the customers, employees and investors of the business model of HSH Nordbank's operating company and to enable the successful conclusion of the privatisation process in the medium-term.

Further details on expectations for the current year and significant risks and opportunities are set out in HSH Nordbank's interim management report as at 30 June 2015.

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NOTE
If at times only the masculine form is used for certain terms relating to groups of people, this is not meant in a gender-specific manner, but occurs exclusively for the sake of better readability.

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This financial information includes certain forward-looking statements. These statements are based on our beliefs and assumptions as well as on conclusions drawn from information currently available to us from sources which we consider to be reliable. A forward-looking statement involves information that does not simply reflect historical facts, including information relating to possible or anticipated future growth and future economic development.

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