2016 FINANCIAL INFORMATION
STRONG FOR ENTREPRENEURS

FINANCIAL INFORMATION

AS AT 30 SEPTEMBER 2016

HSH NORDBANK

KEY FIGURES

INCOME STATEMENT

(€ m)	**January – September 2016**	January – September 2015
Net income before restructuring	**471**	483
Net income before taxes	**183**	110
Group net result	**163**	24

BALANCE SHEET

(€ bn)	**30.09.2016**	31.12.2015
Equity	**4.9**	4.9
Total assets	**88.3**	97.0
Business volume	**96.6**	106.2

CAPITAL RATIOS[1] & LEVERAGE RATIO

(%)	**30.09.2016**	31.12.2015
CET1 ratio	**13.7**	12.3
Tier 1 capital ratio	**17.5**	16.4
Regulatory capital ratio	**22.7**	20.6
Leverage Ratio	**7.5**	6.3

EMPLOYEES

(computed on a full-time equivalent basis)

	30.09.2016	31.12.2015
Total	**2,226**	2,384
Germany	**2,123**	2,264
Abroad	**103**	120

LONG-TERM RATINGS

	Unguaranteed liabilities	Guaranteed liabilities[2]	Public sector Pfandbriefe	Mortgage Pfandbriefe	Ship Pfandbriefe
Moody's	Baa3 dev.[3]	Aa1 stable	Aa2	Aa3	Baa2
Fitch	BBB– neg.	AAA stable	–	–	–

[1] According to the same period calculation under the Capital Requirements Regulation (CRR).
[2] Liabilities covered by the guarantor liability (Gewährträgerhaftung).
[3] dev.: developing.

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

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Note:
This Financial Information of the HSH Nordbank Group as at 31 March 2016 is released voluntarily and does not comply with all the accounting requirements applicable to interim reporting for publicly traded companies. Recognition and measurement rules were applied on the basis of the IFRS.

HSH NORDBANK AT A GLANCE
AS AT 30 SEPTEMBER 2016

INCOME STATEMENT

(€ m)	**January – September 2016**	After adjustment[1] January – September 2015	Change in %
Interest income	2,664	3,365	– 21
Negative interest on deposits and derivatives	– 121	– 28	> 100
Interest expense	– 2,066	– 2,653	– 22
Positive interest on borrowings and derivatives	116	16	> 100
Net income from hybrid financial instruments	– 90	– 88	– 2
Net interest income	**503**	**612**	**– 18**
Net commission income	69	88	– 22
Result from hedging	– 2	12	> – 100
Net trading income	66	90	– 27
Net income from financial investments	90	54	67
Net income from financial investments accounted for under the equity method	2	–	> 100
Total income	**728**	**856**	**– 15**
Loan loss provisions	520	43	> 100
Hedging effect of the credit derivative second loss guarantee	– 371	– 3	> – 100
Administrative expenses	– 421	– 447	– 6
Other operating income	71	88	– 19
Expenses for bank levy and deposit guarantee fund	– 56	– 54	4
Net income before restructuring	**471**	**483**	**– 2**
Result from restructuring	– 118	– 18	> – 100
Expenses for government guarantees	– 170	– 355	– 52
Net income before taxes	**183**	**110**	**66**
Income taxes	– 20	– 86	– 77
Group net result	**163**	**24**	**> 100**
Group net income attributable to non-controlling interests	–	1	– 100
Group net result attributable to HSH Nordbank shareholders	163	23	> 100

1) Adjusted in accordance with IAS 1.41.

BALANCE SHEET

ASSETS

(€ m)	30.09.2016	31.12.2015	Change in %
Cash reserve	4,371	3,394	29
Loans and advances to banks	4,643	5,595	– 17
Loans and advances to customers	50,605	56,575	– 11
Loan loss provisions	742	– 1,065	>– 100
Credit derivative second loss guarantee	300	663	– 55
Positive fair value of hedging derivatives	526	783	– 33
Positive adjustment item from portfolio fair value hedges	510	408	25
Trading assets	6,645	7,356	– 10
Financial investments	15,621	16,636	– 6
Financial investments accounted for under the equity method	11	2	> 100
Intangible assets	14	16	– 13
Property, plant and equipment	266	474	– 44
Investment property	21	64	– 67
Non-current assets held for sale and disposal groups	2,995	5,082	– 41
Current tax assets	64	79	– 19
Deferred tax assets	792	748	– 6
Other assets	140	163	– 14
Total assets	**88,266**	**96,973**	**– 9**

LIABILITIES

(€ m)	30.09.2016	31.12.2015	Change in %
Liabilities to banks	9,359	14,398	– 35
Liabilities to customers	42,956	44,567	– 4
Securitised liabilities	16,613	18,616	– 11
Negative fair values of hedging derivatives	359	727	– 51
Negative adjustment item from portfolio fair value hedge	932	872	7
Trading liabilities	6,784	6,758	–
Provisions	1,634	1,517	8
Liabilities relating to disposal groups	165	1	> 100
Current tax liabilities	46	151	– 70
Deferred tax liabilities	2	–	100
Other liabilities	996	1,029	– 3
Subordinated capital	3,505	3,452	2
Equity	4,915	4,885	1
Share capital	3,018	3,018	–
Capital reserve	175	175	–
Retained earnings	1,423	1,464	– 3
Revaluation reserve	121	103	17
Currency conversion reserve	31	42	– 26
Group net result	163	99	65
Total before non-controlling interests	4,931	4,901	1
Non-controlling interests	– 16	– 16	–
Total equity and liabilities	**88,266**	**96,973**	**– 9**

BUSINESS DEVELOPMENTS
AS AT 30 SEPTEMBER 2016

OVERVIEW OF BUSINESS PERFORMANCE

Developments in the first nine months of 2016 were characterised mainly by the preparations for and implementation of the formal decision of the EU Commission (hereinafter referred to as the EU decision) and the focus on the Bank's operating activities. In the third quarter of 2016 the structuring of the planned portfolio sale in the market and expansion of new business in the Core Bank were paramount. Restructuring activities in the shipping division were further intensified at the same time. The Bank also made progress in line with the plan in streamlining the organisation and processes as part of the intensified cost reduction programme. Overall, for the first nine months in a sometimes very challenging environment the Bank reported good results, which were characterised by satisfactory operating developments in the Core Bank and structurally related charges in the Restructuring Unit.

Consistent implementation of the EU measures

In the first nine months of 2016, the Bank prepared for and implemented significant structural measures in line with the plan and in connection with the agreed list of conditions and commitments provided by the Federal Republic of Germany on the basis of the EU decision reached on 2 May 2016. The purpose of these measures is to improve the financial and risk situation following implementation and create the basis for a sound structure and viable business model of HSH Nordbank.

In this connection a portfolio of non-performing shipping loans of € 5 billion (31 December 2015 reporting date) had already been transferred as at 30 June 2016 to the state-owned hsh portfoliomanagement AöR. The purchase price (€ 2.4 billion), as stipulated by the EU Commission for this portfolio was paid to the Bank in the third quarter 2016, which results in a further improvement of the Bank's liquidity position. The losses (€ 2.6 billion) arising on the transfer were charged as part of the losses invoiced under the guarantee. Against this backdrop the Bank was noticeably relieved as concerns the burden of problem loans in the shipping segment, which were entered into as part of the significant business expansion in the years up to 2009. Nevertheless, in the absence of any further relief, the Bank still has a very high level of troubled assets originating in the years up to 2009, which is continuing to be systematically reduced. Furthermore, the holding structure was established in the second quarter of 2016 which provided the operating HSH Nordbank with considerable relief from guarantee fees. Under this the operating company pays from 1 January 2016 a base premium of 2.2% (previously 4%) for the provision of the second loss guarantee, which is calculated solely on the unutilised, i.e. undrawn, portion of the guarantee.

In the third quarter of 2016 the Bank also started to make intensive preparations for the planned portfolio sales of up to € 3.2 billion in the market. In this connection, a portfolio was selected with a clear focus on a further reduction in risk on the Bank's balance sheet. Based on a positive market response, the official sales announcement was published on 30 September 2016. Because of the broad investor interest the Bank expects that the transaction will be implemented in line with the plan by the middle of 2017, whereby a major portion should have already been concluded in the fourth quarter of 2016.

Preparation for change in owners

The Bank has also strongly supported its owners in preparing for the upcoming change in owners. On the one hand, the ongoing cost reduction programme was further expanded and, on the other, organisational changes were implemented and the reporting structures of the Core Bank and Restructuring Unit as well as the segments were structurally adjusted on this basis. In particular, a portfolio reallocation was made in the third quarter of 2016 between the Core Bank and Restructuring Unit in order to present the value creation structure in a transparent manner. This has resulted in the optimisation of the Core Bank portfolio and proper and consistent allocation of impaired legacy portfolios by their mapping in the Restructuring Unit, thereby decreasing the complexity of the Group structure. The Restructuring Unit was renamed as part of the portfolio reallocation. The impaired legacy portfolios earmarked for winding down will be disclosed in future in the Non-Core Bank.

With these measures the Bank is actively creating a broad basis for a successful sale process, which, pursuant to the list of conditions and commitments, may also encompass the sale of business operations divisions or parts thereof with the consent of the public owners. The Bank is thus meeting its obligations according to the stipulations of the EU commission and is paving the way for an efficient and flexible privatisation process.

Further details on the portfolio reallocation and segment changes are set out below in the "Segment results" section. The Interim Management Report as at 30 June 2016 contains further details on the EU decision and its impact on the Bank.

Satisfactory new business trend in highly competitive environment

New business developed pleasingly in the third quarter of 2016 and increased significantly by € 2.3 billion. New business amounted in total to € 5.8 billion for the first nine months of 2016 and was therefore moderately below that for the same period in the previous year (€ 6.4 billion), but significantly below the planned volume. Following the good development in the third quarter of 2016 the amount of new business in the pipeline indicates a positive performance in the fourth quarter of 2016 as well, so that the Bank assumes it will achieve its targets set by half-year 2016 for 2016 in terms of new business. Broken down by segment, new business generated in the Real Estate division exceeded the plan amount as at 30 September 2016 due to its good market position, but was below the high previous year's level given the intentionally selective expansion of new business. New business generated in the Corporate Clients division increased markedly compared to the same period in the previous year. However, it fell far short of expectations primarily as a result of the continued intense competition and a generally subdued client loan demand. The deliberately reduced new business in the Shipping division was, as expected, below the previous year's level and planned volume and therefore reflects the extremely challenging market conditions.

The ratio of new loans disbursed to new business concluded (disbursement ratio) increased in the third quarter of 2016 to the previous year's level, whereby the pro rata plan amount was exceeded. Interest margins achieved in the highly competitive environment have decreased further compared to the previous year. Although they were at the target ambition level in the Shipping segment, they fell short of this in the Corporate Clients and Real Estate business. However, cross-selling net income generated by various banking services over and above loan financing was in line with the plan. As expected, lower loan commissions were received for restructuring activities, particularly in the Non-Core Bank, as a result of the progress made in reducing risk, which was the main contributory factor for total cross-selling income being moderately below that of the same period in the previous year. Investment products were still among the services most in demand with Core Bank clients. Cross-selling income in the derivatives area is at the level of the same period in the previous year but is nevertheless moderately below the plan amount.

Accelerated winding down of legacy portfolios

Following the sharp reduction in the previous year, the legacy portfolios in the Non-Core Bank continued to be wound down in the first nine months of 2016 according to plan. The portfolio has been wound down by € 8 billion in total since 31 December 2015. This change comprises the reduction relating to the transfer of the portfolio of € 5 billion to the federal state owners on 30 June 2016 on the one hand and the regular winding down of the portfolio of inherited burdens amounting to € 3 billion (including exchange rate effects) on the other hand.

In the third quarter of 2016, the Bank carried out a portfolio reallocation between the Core Bank and Non-Core Bank. This achieves a clear separation between the problem legacy loans on the one hand and the new business portfolio on the other and thereby creates a transparent structure based on causation as the basis for the upcoming change in owners. On the one hand, non-performing legacy loans of € 6.2 billion were transferred primarily from the Core Bank's Shipping division as part of the reallocation to the Non-Core Bank. On the other hand, portfolios totalling € 4.5 billion were reclassified from the Non-Core Bank's Divestment division to the Core Bank. These comprised mainly the public sector financing portfolio, which is used as the cover pool for public sector Pfandbriefe. In total, the Non-Core Bank's portfolio increased by € 1.7 billion as a result of the reallocation in the third quarter of 2016, whilst, at the same time, the Core Bank's portfolio decreased by the same amount. All the previous year's figures were adjusted accordingly for comparative purposes.

Despite the continuing very difficult conditions in the shipping industry, the winding down of non-performing ship financing transactions was also continued in the first half of 2016 by means of the restructuring of shipping loans. These solutions transfer shipping loan tranches to investors thus reducing the Bank's portfolio risk. At the same time, the Bank secures the option during the course of the transaction to benefit from a recovery in the shipping industry. No new transactions were concluded in the third quarter of 2016.

Cost optimisation implemented in line with the plan

The increasing pressure on earnings in the highly competitive banking market and increasing costs incurred for regulatory requirements are being countered by the cost reduction programme that has been ongoing since 2014. On 15 June 2016, the Management Board approved a further reduction in administrative expenses in the years 2016 to 2018 with the objective of achieving a sustainable and appropriate cost-income ratio of under 50% for the Bank. The intended measures provide for a further reduction in staff of up to 317 full-time equivalents (FTEs) and further savings in operating expenses, in particular for land and buildings as well as consultancy. Details regarding the implementation of the reduction in staff are governed by a reconciliation of interests (Interessenausgleich), on which the Management Board and Group Works Council agreed in the third quarter of 2016. The social plan in place since 2011 was modified to a limited extent and contains the tools to be used for a socially acceptable reduction in staff. Savings in the area of operating expenses have been identified for the most part and already approved in some cases.

In the third quarter of 2016 the Bank made progress in line with the plan in implementing the cost measures. The streamlining of the organisational structure in particular as well as the corresponding reduction of business units were driven forward as the basis for the planned reduction in staff. Several business units were merged within the CEO and COO department in the third quarter of 2016. Work also continued on preparing for the integration of the Non-Core Bank into the CRO department, which will optimise business processes and make greater use of cross-divisional efficiency potential. In addition, a reduction in consultancy fees and other personnel-related operating expenses has contributed to the targeted cost management. Over a third of the planned reduction in employees had already been contractually agreed by 30 September 2016.

Management system and defined management indicators of the IFRS Group

The Bank's integrated management system is aimed at the management of key value drivers – income, expense, capital, liquidity and risk – on a targeted basis. The Bank uses a risk-adjusted key indicator and ratio system for this purpose that ensures that the Overall Bank, Core Bank and Non-Core Bank are managed in a uniform and effective manner. The HSH Nordbank Group is managed mainly on the basis of figures for the Group prepared in accordance with the International Financial Reporting Standards (IFRS).

Within the framework of management reporting, the Bank focuses on the most important management indicators for the individual value drivers of the IFRS Group. On the one hand, the focus is placed on the change in these key indicators over the past year compared to the same period in the previous year and, on the other, on their expected development over the remainder of 2016. All relevant previous year and plan figures for the Core Bank and Non-Core Bank have been adjusted accordingly as at 30 September 2016 for comparison purposes as part of the conversion of segment reporting (details regarding this are set out in the "Segment results" section). This ensures a consistent comparison with the still valid key management indicators, which also guarantees the uniform and effective management of the Core Bank and Non-Core Bank following the change in the segment structure. In this regard, the following key management indicators and ratios continue to be relevant for the Core Bank: return on equity (RoE), cost-income ratio (CIR), total income, income before taxes and new business. Total assets and loan loss provisions are accordingly the important management indicators for the Non-Core Bank.

Further information on the management system and defined management indicators of the HSH Nordbank Group, Core Bank and Non-Core Bank is set out in HSH Nordbank's Group Management Report for the 2015 financial year in the "Management System" subsection in the "Basis of the Group" section. Further information on expected developments for the whole of 2016 is set out in the "Forecast, opportunities and risk report" section in the Interim Management Report as at 30 June 2016 as well as in the "Outlook" section of this Financial Information.

Core Bank net income higher than expected

The Core Bank, which, following the change in the segment structure, includes the total of the Real Estate, Shipping, Corporate Clients and Treasury & Markets segments excluding consolidation effects from 30 September 2016 (all previous year and plan figures mentioned below have been adjusted accordingly for comparability purposes), generated net income before taxes of € 535 million for the first nine months of 2016 (same period in the previous year: € 347 million), which was significantly above plan and the same period in the previous year.

These results were positively impacted by total income of € 772 million that exceeded total income of € 673 million generated in the same period in the previous year by € 99 million. Increased net interest income of € 507 million, which reflects in particular a slightly above plan trend in interest income from operating activities and the effects from the realisation of hidden reserves by sales of loan notes and securities already recognised in the second quarter 2016, contributed to these results, and net trading income of € 146 million also made a significant contribution. Furthermore, the Core Bank results benefited from low loan loss provision expense, which amounted to € –13 million in total (same period of the previous year: € 161 million, positive amount due to reversals of loan loss provisions recognised in individual cases). This is attributable to the portfolio reallocation carried out in the third quarter of 2016, the objective of which was to combine the strategic portfolios in the Core Bank and to wind down certain non-performing legacy portfolios in the Non-Core Bank. This provided total relief of € 41 million (same period in the previous year: € 8 million) after taking account of the compensation under the second loss guarantee disclosed within loan loss provisions.

The ongoing cost reduction programme was also implemented in the third quarter of 2016 in line with the plan. Administrative expenses amounted to € –264 million and are therefore appreciably below the level for the same period in the previous year (€ –316 million) and slightly below the plan amount. Core Bank net income was adversely impacted by expenses for government guarantees of € –17 million (same period in the previous year: € –29 million).

All segments contributed to the overall good earnings performance. Real Estate with € 118 million, Shipping with € 92 million, Corporate Clients with € 74 million and Treasury & Markets with € 251 million made positive contributions. Earnings were adversely impacted by the low interest rate environment and intensive competition, which had a negative effect on the new business margin trend in particular. The Core Bank achieved an above plan return on equity of 26% (same period in the previous year: 19%), on the basis of its positive results, which also include the effects from the realisation of hidden reserves by sales of loan notes and securities recognised in net interest income. Cost-income ratio of 34% was also better than planned (same period in the previous year: 46%).

High level of loan loss provisions in the Non-Core Bank

As expected, the Non-Core Bank, in which non-performing legacy loans earmarked for winding down are combined, disclosed a net loss of € –151 million as at 30 September 2016 (same period in the previous year: € –79 million). This net loss includes administrative expenses of € –181 million (same period in the previous year: € –183 million) and € –146 million relating to expenses for the second loss guarantee (same period in the previous year: € –313 million). The loss is attributable mainly to the continued winding down of the portfolio and the setting of loans to a non-accrual basis as part of the recognition of loan loss provisions. This resulted in a further reduction in interest-bearing loans and thus to a sharp decrease in net interest income. Total income of the Non-Core Bank amounted to € 37 million (same period in the previous year: € 336 million). Net interest income of € 20 million (same period in the previous year: € 211 million) and net income from financial investments of € 36 million (same period in the previous year: € 50 million) made a positive contribution to this and net trading income of € –37 million a negative contribution (same period in the previous year: € 51 million).

Net income before taxes was also adversely impacted by particularly high loan loss provision expenses of € –968 million for shipping loans (same period in the previous year: € –469 million). These were compensated for in the guaranteed portfolio by the guarantee. Taking into account the compensation containing positive effects of the losses invoiced in the second quarter of 2016, loan loss provision income amounted to € 459 million (same period in the previous year: € 5 million). Including the hedging effect of the credit derivative loan loss provisions for the Non-Core Bank after taking the guarantee effect into account would amount to € 88 million (same period in the previous period: € 2 million).

"Other and Consolidation" division

The new "Other and Consolidation" division established as part of the change in the segment structure comprises staff functions, Overall Bank positions and consolidation effects, which reconcile the internal reporting results presented in the segment report to the Group financial statements prepared in accordance with IFRS. In addition to the measurement and disclosure differences, expenses for the bank levy and deposit guarantee fund as well as restructuring expenses are also fully allocated to the division.

Net income before taxes amounted to € –201 million as at 30 September 2016 (same period in the previous year: € –158 million) and is attributable mainly to consolidation effects, expenses for the bank levy and deposit guarantee fund as well as restructuring expenses incurred in connection with the planned headcount reduction.

Overall good Group development

Group net income, which, following the change in the segment structure effective from 30 September 2016, comprises net income of the Core Bank (segments: Real Estate, Shipping, Corporate Clients and Treasury & Markets), Non-Core Bank and the "Other and Consolidation" division, was at an overall good level in a challenging environment. Group net income before taxes for the first nine months of 2016 amounted to € 183 million, which was significantly above that for the same period in the previous year (€ 110 million) and expectations. Group net income after taxes of € 163 million was well above the previous year's level (€ 24 million).

Total income of € 728 million was above plan but below that for the same period in the previous year (€ 856 million). Net interest income amounted to € 503 million as at the reporting date compared to € 612 million as at 30 September 2015. The effect of new business on earnings is offset by the adverse impact of the marked reduction in the interest-bearing loan volume compared to the same reporting date in the previous year. The reduction in loans is mainly attributable to the restructuring measures (setting legacy loans to a non-accrual basis, recognition of loan loss provisions), which were implemented primarily in the Non-Core Bank's shipping portfolio. Furthermore, the low level of interest rates and intensive competition continued to have a negative effect on Group earnings. These burdens were partially offset by impacts of the realisation of hidden reserves by sales of promissory notes and securities accrued in the second quarter of 2016.

A very high amount of impairment losses had also to be recognised again in the third quarter of 2016 for shipping loans in the Non-Core Bank to take account of the continuing very difficult conditions in the shipping industry which have been characterised by continuously strongly falling charter rates and significantly decreasing ship values. After taking account of the compensation disclosed in loan loss provisions and including the hedging effect of the credit derivative second loss guarantee (as a component of the second loss guarantee) the relief provided for the Group amounted in total to € 149 million (same period in the previous year: € 40 million). The loan loss provision results were affected positively by the losses invoiced in the second quarter of 2016 in particular. Under the guarantee with HSH Finanzfonds AöR, the Bank was also able to charge interest payments not received in the past in addition to loan losses incurred.

A further marked reduction in operating and personnel expenses was achieved against the backdrop of the ongoing cost reduction programme that is being implemented in line with the plan. Administrative expenses decreased by € 26 million and thereby made a contribution to the good level of Group earnings. Earnings were adversely impacted by an increase in restructuring expenses (total: € –118 million, same period in the previous year: € –18 million) incurred in connection with the planned personnel measures.

In addition to the Group's overall good earnings performance the trend in the core Tier 1 ratio (CET1 ratio) was positive. This was 13.7% as at 30 September 2016 (31 December 2015: 12.3%) and is therefore at a good level from the Bank's perspective. This increase was due to the nine months results and a significant reduction in RWA. The leverage ratio improved to a very solid 7.5% (31 December 2015: 6.3%) and the liquidity ratios (LiqV: 2.06, LCR: 176% and NSFR: 106%) were above those in the Bank's plan and achieved a good level overall.

Further details on the reasons underlying the business performance are set out in the following "Earnings", "Net assets and financial position" and "Segment results" sections.

NET EARNINGS

Total income above plan

Total income for the first nine months of 2016 decreased to € 728 million compared to € 856 million in the same period in the previous year. Based on the expected decrease in the interest-bearing loan volume, the Bank assumed in its planning that total income would decrease accordingly.

Total income was driven primarily by net interest income, which amounted to € 503 million for the first nine months (same period in the previous year: € 612 million). In addition to interest income from operating activities net interest income, which in total was above plan, included effects of the realisation of hidden reserves by sales of promissory notes and securities that had already been recognised in the second quarter of 2016. The average interest-bearing loan volume decreased in line with the plan. The overall positive earnings effect of customer business was offset by the accelerated reduction in the Non-Core Bank's portfolio and a higher level of loan principal repayments.

Net commission income amounted to € 69 million as at 30 September 2016 compared to € 88 million as at the same reporting date in the previous year. The decrease is attributable primarily to lower cross-selling income. This decreased as a result of a reduction in loan restructuring fees generated in the Non-Core Bank during the course of the significant reduction in the portfolio.

Net trading income made a contribution of € 66 million to total income in the first nine months of 2016 (same period in the previous year: € 90 million). Operating successes in the customer business (€ 102 million including hedging effects), positive effects arising from assets measured at fair value (€ 36 million) and gains arising on the currency translation and measurement of EUR/USD basis swaps (€ 29 million) in particular had a positive impact on the earnings performance. Net trading income of € –50 million was adversely impacted by measurement effects in the derivatives area that arose primarily as a result of the decrease in long-term interest rates and substantial widening of CDS spreads. Measurement losses in the credit investment portfolio also had a negative effect.

Net income from financial investments amounted to € 90 million and was driven mainly by gains realised on the sale of securities (€ 64 million) and write-ups of Heta Asset Resolution AG (HETA) securities (€ 42 million). It was adversely impacted by impairment losses of € –28 million recognised on profit participation certificates. Overall, net income was significantly above that for the same period in the previous year (€ 54 million).

HSH Nordbank continued to measure the securities portfolio (€ 220 million) of Heta Asset Resolution AG (HETA) at current market value as at the balance sheet date. This resulted in a write-up of € 42 million being recognised in net income from financial investments as at the reporting date. Due to the hedging of transactions under the second loss guarantee, this write-up was offset by the recognition of an expense in the equivalent amount resulting from a corresponding reduction in the hedging effect of the second loss guarantee in loan loss provisions.

Continuing high level of loan loss provisions

Loan loss provisions for the first nine months of 2016 continued to be dominated by a high level of additions in the shipping portfolio. Additional loan loss expense was recognised for legacy transactions in the shipping portfolio to reflect the very difficult market developments, which are in particular characterised by a significant collapse of charter rates and ship values. This was attributable primarily in the reporting period to loans for bulkers and container ships. However, the risk trend in the other segments (Real Estate, Corporate Clients) remained insignificant.

In total, loan loss provisions amounted to € –966 million as at 30 September 2016 before taking account of the compensation effect of the guarantee (same period in the previous year: € –306 million). They are significantly above both the pro rata plan amount and that for the same period in the previous year. Loan loss provisions recognised in particular for legacy portfolios continued to be compensated for by the guarantee in the first nine months if they related to portfolios covered by the guarantee. Compensation under the second loss guarantee for the guaranteed portfolio, which is disclosed under loan loss provisions, amounted to € 1,307 million taking into account currency translation gains and losses (same period in the previous year: € 636 million). After the compensation effect under the second loss guarantee loan loss provision expense amounted to € 520 million (same period in the previous year: € 43 million) taking into account the current loan loss provision expense. Taking account of the hedging effect of the credit derivative of € –371 million (30 September 2015: € –3 million) loan loss provision expense would amount in total to € 149 million (30 September 2015: € 40 million).

Loan loss provisions were positively affected by the results of the invoicing of losses, particularly in the second quarter of 2016, via the compensation mechanism under the second loss guarantee. Interest payments not received in the past could also be charged in the invoicing of losses under the guarantee with HSH Finanzfonds AöR in addition to loan losses incurred.

The hedging effect also gave rise for the first time to a cash drawdown of the guarantee after taking account of the transfer of non-performing shipping loans to the federal state owners. The Bank's first loss piece (€ 3.2 billion) was exceeded by € 1.9 billion as at the reporting date as a result of losses, which were also incurred mainly in connection with the invoicing of losses relating to the federal state transaction. The utilisation of the second loss guarantee in the balance sheet amounts to € 9.0 billion as at 30 September 2016 (31 December 2015: € 8.1 billion).

The actual payments made under the guarantee are offset by significant fees already paid for the guarantee. Base premiums recognised through profit or loss by HSH Nordbank and paid to the guarantors (excluding the one-off payment of € 0.5 billion) have increased to € 2.9 billion as at 30 September 2016 (current base premium plus subsequent base premium payment for the replenishment of the guarantee facility in the middle of 2013).

Further reduction in administrative expenses

Administrative expenses for the first nine months of 2016 were further reduced to € –421 million (same period in the previous year: € –447 million) in line with expectations. Overall, this decrease reflects the savings realised in line with the plan under the ongoing cost reduction programme. The positive developments relating to the cost saving measures were partially eroded as at 30 September 2016 due to write-downs of € –26 million recognised in connection with the revaluation of property, plant and equipment of subsidiaries. Excluding this one-off charge, administrative expenses would have decreased by 11% compared to the same period in the previous year, despite increasing costs for regulatory requirements.

The planned further reduction in the number of employees as part of the headcount reduction had a positive impact on personnel expenses, which decreased markedly from € –205 million to € –188 million. Compared to the end of 2015, the number of employees within the Group declined by 158 to 2,226 (computed on a full-time equivalent (FTE) basis).

Operating expenses (excluding depreciation/amortisation) decreased noticeably to € –183 million compared to € –208 million for the same period in the previous year. Savings were achieved in particular by reducing building costs. Higher costs incurred for restructuring commitments also had an adverse impact in the same period in the previous year. These savings continue to be offset by high costs incurred in implementing regulatory and accounting requirements.

Depreciation of property, plant and equipment and amortisation of intangible assets increased even more than planned to € –50 million compared to € –34 million in the same period in the previous year. This increase was attributable mainly to unscheduled depreciation of € –26 million, which was recognised as part of the revaluation of property, plant and equipment of subsidiaries that relates mainly to the market transaction planned for the 2016 year-end.

Other operating income amounted to € 71 million (same period in the previous year: € 88 million) and mainly includes income from cost reimbursements and reversals of provisions.

Reduction in base premium expense

The base premium expense for the second loss guarantee amounted to € –170 million for the first nine months of 2016 (same period in the previous year: € –355 million). The sharp decrease in premium expense is mainly attributable to the reduction approved under the EU decision in the base premium from 4% (calculated on the guarantee facility) to 2.2% (calculated on the undrawn, i.e. unutilised, portion of the guarantee) from 1 January 2016.

Overall good Group results

After taking account of the operating performance and against the backdrop of the implementation of structural measures, HSH Nordbank generated overall net income before taxes of € 183 million as at 30 September 2016, which was significantly above expectations (same period in the previous year: € 110 million). After deducting tax effects there remains Group net income of € 163 million (same period in the previous year: € 24 million).

The income taxes line item comprised current tax expense of € –7 million and deferred tax expense of € –13 million.

Return on equity for the Group calculated on the basis of net income before income taxes is 5% (same period in the previous year: 3%). The cost-income ratio of a satisfactory 53% was also better than planned (same period in the previous year: 47%).

NET ASSETS AND FINANCIAL POSITION

Total assets reduced by portfolio transfer

Total assets of HSH Nordbank decreased to € 88,266 million in the first three quarters of 2016 (31 December 2015: € 96,973 million). This was due mainly to the transfer in the second quarter of 2016 of a portfolio of non-performing shipping loans of € 5 billion to federal state-owned hsh portfoliomanagement AöR. The continued winding down of risk positions in the Non-Core Bank as well as principal loan repayments also contributed to the decrease.

All material line items on the asset side of the balance sheet decreased. This was offset by an increase in cash reserves from € 3,394 million as at 31 December 2015 to € 4,371 million as at the 30 September 2016 reporting date. This is primarily attributable to the liquidity inflows arising in connection with the transfer of the portfolio to hsh portfoliomanagement AöR in the second quarter of 2016. Loans and advances to banks of € 4,643 million were significantly lower than as at the previous year-end (31 December 2015: € 5,595 million). This was due to lower demand and time deposits held at other banks and a decrease in securities repurchase agreements. Loans and advances to customers decreased to € 50,605 million (31 December 2015: € 56,575 million). A portion of this decrease relates to the partial reclassification of the portfolio of customer loans to be sold in the market to the "Non-current assets held for sale and disposal groups" line item. Loan principal repayments in the customer divisions also played a significant role, which more than offset new business generated in the Core Bank.

Loan loss provisions disclosed on the balance sheet (after compensation effect) were positive as was the case in the previous quarter and amounted to € 742 million (31 December 2015: € –1,065 million). The transfer of the portfolio to hsh portfoliomanagement AöR in the second quarter of 2016 resulted in a decrease in loan loss provisions before taking account of the compensation. At the same time, the compensation item still included payment claims against the guarantor, HSH Finanzfonds AöR, for payment defaults. Following a significant overcompensation of the loan loss provisions in the previous quarter, this effect was lower in the third quarter of 2016. Excluding the compensation, total loan loss provisions decreased to € –6,399 million (31 December 2015: € –8,227 million).

Trading assets decreased to € 6,645 million (31 December 2015: € 7,356 million). Securities positions held in trading assets decreased in particular. Financial investments decreased only slightly to € 15,621 million (31 December 2015: € 16,636 million). This was attributable primarily to a slight decrease in the securities portfolios.

On the liabilities side, liabilities to banks in particular decreased to € 9,359 million (31 December 2015: € 14,398 million). This was mainly due to a decrease in liabilities to central banks. Liabilities to customers fell slightly to € 42,956 million (31 December 2015: €44,567 million). Both demand and time deposits decreased slightly. Securitised liabilities amounted to € 16,613 million (31 December 2015: € 18.616 million). This was caused by a higher volume of maturities than new issues. Trading liabilities comprising negative market values of derivatives (€ 6,784 million, 31 December 2015: € 6,758 million) and subordinated capital (€ 3,505 million, 31 December 2015: € 3,452 million) remained constant compared to the previous year-end. Reported equity of € 4,951 million (31 December 2015: € 4,885 million) also remained at the level of the previous year end. The equity line item was adversely impacted by the measurement of the pension provisions against the backdrop of the low level of interest rates, whilst the revaluation reserve and Group net income had a positive effect.

Business volume decreased to € 96,630 million (31 December 2015: € 106,176 million) due to lower total assets. Off-balance sheet business also decreased. Sureties and guarantees amounted to € 2,349 million (31 December 2015: € 2,833 million), and irrevocable loan commitments to € 6,015 million (31 December 2015: € 6,370 million).

Capital ratios at good level as at 30 September 2016

REGULATORY RATIOS
SAME PERIOD

(%)	**30.09.2016**	31.12.2015
Total capital ratio	22.7	20.6
Tier 1 capital ratio	17.5	16.4
CET1 ratio	13.7	12.3
CET1 ratio (full implementation of Basel III)	13.0	11.6
Leverage ratio	7.5	6.3

ELIGIBLE OWN FUNDS
SAME PERIOD

(€ bn)	**30.09.2016**	31.12.2015
Regulatory capital	7.7	7.7
of which Tier 1 capital	6.0	6.1
of which CET1 capital	4.6	4.6
of which additional Tier 1 capital	1.3	1.5
of which supplementary capital	1.7	1.6
Risk assets (RWA)	34.0	37.4
of which risk assets counterparty default risk	26.0	26.8
Leverage exposure	79.9	97.6

CET1 ratio increase to 13.7 %

The core Tier 1 capital ratio (CET 1 ratio, under the Basel III transitional arrangements, phase-in) increased to 13.7% as at 30 September 2016 and is therefore still at a good level from the Bank's perspective. In the third quarter of 2016 it also exceeded the ratio planned for the 2016 year-end. The increase since 31 December 2015 (12.3%) reflected the significant reduction in RWA due mainly to the transfer of non-performing loans to the federal state owners as at 30 June 2016 and the positive results for the first nine months of the year. This was offset by higher deductions from equity under the Basel III phase-in rules and charges recognised in OCI (other comprehensive income) due mainly to the low level of interest rates.

Even under the assumption of full implementation of the Basel III rules (fully loaded) HSH Nordbank's CET1 ratio increased significantly to 13.0% compared to 31 December 2015 (11.6%).

As part of the supervisory process in the Banking Union, HSH Nordbank was assigned an individual minimum capital ratio by the ECB that is reviewed annually in the SREP process. This minimum capital ratio was adhered to at all times in the first nine months of 2016.

RWA have decreased compared to 31 December 2015 by € 3.4 billion to € 34.0 billion and are therefore below plan. The decrease in RWA was also due mainly to the transfer of non-performing loans, which were primarily denominated in USD, to the federal state owners as at 30 June 2016. The trend of the Bank's key risk parameters was slightly negative in the third quarter of 2016, mainly as a result of developments in the shipping markets.

The regulatory minimum risk weight of 20% is applied to the senior tranche of the second loss guarantee of the federal states. The risk weight calculated as at 30 September 2016 is around 5.2%, which is equivalent to about € 0.5 billion of free capacity for expected and unexpected losses/guarantee buffer (31 December 2015: 0.3%, which is equivalent to about € 1.7 billion of free capacity for expected and unexpected losses/guarantee buffer). The guarantee buffer has the effect that negative risk trends in the guaranteed portfolio do not have a material impact on the capital ratios, as long as the regulatory minimum risk weight for the senior tranche of the guarantee structure does not exceed 20%.

The expected deterioration in the risk weight and reduction in the guarantee buffer compared to 31 December 2015 is mainly related to the deterioration in the risk parameters in the Shipping division and the invoicing of losses as part of the federal state transaction.

HSH Nordbank's leverage ratio was a solid 7.5% as at 30 September 2016 (31 December 2015: 6.3%). A statutory binding minimum ratio has not yet been defined for the leverage ratio. The increase in the leverage ratio is attributable primarily to the sharp reduction in the leverage exposure. The reason underlying the reduction in the leverage exposure is the change in the leverage exposure calculation methodology incorporated in the Capital Requirements Regulation (CRR) based on an EU decision.

Detailed information regarding HSH Nordbank's capital and RWA forecast is set out in the "Forecast, opportunities and risk report" of the Interim Management Report as at 30 June 2016.

Funding activities further expanded

HSH Nordbank has successfully continued to implement its funding strategy in the first nine months of 2016 by using different sources of funding.

Retail funding performed well in the challenging low interest rate environment. The raising of funding, including placements with institutional clients, was above plan in the reporting period.

The Bank had already successfully used the capital markets in the first half of 2016 to issue two large-volume Pfandbriefe. A public sector Pfandbrief of € 500 million was followed in April 2016 by a seven year mortgage Pfandbrief in the same amount of € 500 million, which was increased to € 850 million in July 2016 due to the strong demand.

Asset-based funding (ABF) is a further important refinancing instrument for the Bank. A further large-volume transaction was concluded via the ABF platform in the second half of the year. Long-term borrowings of around USD 250 million were raised on the basis of a portfolio of corporate financing transactions, which strengthen the primary USD refinancing base. There is also the option of increasing the volume during the term of the borrowings.

Besides the issuing activities, the level of deposits contributed to the implementation of the funding strategy. Total deposits amounted to € 32 billion as at 30 September 2016 (31 December 2015: € 35 billion). Furthermore, the Bank held liquidity reserves as at the end of the third quarter of 2016 in the form of credit balances at central banks in the total amount of € 4.2 billion and collateral eligible for refinancing at central banks in the amount of € 13.6 billion, which the Bank can access at any time.

The transfer of the portfolio to the federal state owners in the middle of 2016 resulted in a strengthening of the liquidity position as a result of the receipt of the sales price of € 2.4 billion. The regulatory requirements for the Bank's liquidity ratios were met during the reporting period. The liquidity ratio as defined in the German Liquidity Regulation (LiqV) improved as at 30 September 2016 to 2.06 (31 December 2015: 1.89), which was still within plan and significantly above the regulatory minimum requirements. The liquidity coverage ratio (LCR, short-term minimum liquidity ratio) amounted to 176% as at 30 September 2016 (31 December 2015: 112%, in accordance with the Basel QIS framework) and was therefore significantly above the minimum requirements as well.

Detailed information on HSH Nordbank's funding forecast is set out in the "Forecast, opportunities and risk report" section of the Interim Management Report as at 30 June 2016.

SEGMENT RESULTS

SEGMENT OVERVIEW JANUARY TO SEPTEMBER 2016[1] [2]

(€ m)		Real Estate	Shipping	Corporate Clients	Treasury & Markets	**Core Bank[3]**	Non-Core Bank	Other and consoli-dation	**Group**
Total income	**2016**	**161**	**102**	**178**	**331**	**772**	**37**	**–81**	**728**
	2015	148	109	211	205	673	336	–153	856
Loan loss provisions (including credit derivative)	2016	–1	42	–1	1	41	88	20	149
	2015	1	–	8	–1	8	2	30	40
Administrative expenses	2016	–39	–42	–104	–79	–264	–181	24	–421
	2015	–45	–51	–124	–96	–316	–183	52	–447
Net income before taxes	**2016**	**118**	**92**	**74**	**251**	**535**	**–151**	**–201[4]**	**183**
	2015	101	45	93	108	347	–79	–158	110
Segment assets (€ bn)	30.09.2016	12	7	12	18	48	23	16	88
	31.12.2015	11	8	12	18	49	31	17	97

[1] After change in the segment structure as at 30 September 2016; previous year's value adjusted accordingly.
[2] Summary of the loan loss provisions and hedging effect of credit derivative second loss guarantee line items.
[3] Core Bank is the total from the four segments: Shipping, Corporate Clients and Treasury & Markets.
[4] Net income before taxes including expenses for bank levy and deposit guarantee fund as well as restructuring expenses.

Change in segment structure

In preparation for the change in owners, the Bank changed the segment structure as at 30 September 2016 on the basis of the organisational changes implemented. The focus was on the mapping of the value creation structures of the individual segments in a transparent manner based on causation. In this regard, a portfolio allocation was carried out in the Bank as at 31 August 2016 as a first step. Non-performing loan portfolios of € 6.2 billion were transferred mainly from the Core Bank's shipping recovery unit to the Non-Core Bank. These mainly consist of legacy burdens from the years before 2009 that are covered by the loan loss provisions of the state owners. In return, € 4.5 billion of mainly covered pool portfolios were transferred from the Non-Core Bank to the Core Bank's Treasury & Markets segment. This resulted in the consistent allocation of loan portfolios to continuing operations in the Core Bank and the reduction in risk in certain non-performing portfolios in the Non-Core Bank.

In a second step the Bank changed the segment structure as at 30 September 2016 based on the portfolio allocation. This included the structural adjustment of the segments, reallocation of the guarantee effect and merger of Overall Bank positions and consolidation items into the "Other and Consolidation" division. These changes are aimed specifically at increasing the external transparency of the Core Bank's strategic business areas as well as the non-strategic wind-down portfolios and thereby establishing a rigorous and clear reporting process to support the upcoming change in owners.

Change in segments

Together with the merging of the market divisions under the responsibility of a single board member, the Shipping, Project & Real Estate Financing and Corporate & Markets were dissolved and transferred to the Real Estate, Shipping, Corporate Clients and Treasury & Markets segments with effect from 30 September 2016. The former Corporate Center segment was also integrated into the newly established "Other and Consolidation" division. This presentation results from the organisational structure based on products and client groups and reflects the new internal management logic.

Reallocation of guarantee effects

All essential guarantee effects, which had previously been reported in the respective consolidation columns of the Core Bank and Non-Core Bank (formerly the Restructuring Unit), were allocated to the individual segments based on causation and thus the two consolidation columns were merged into a single consolidation column for the Group. In view of the portfolio reallocation carried out in the third quarter of 2016 this reallocation of the guarantee effects makes a decisive contribution to the transparent mapping of the value creation structure in the segments, whereby the clarity of the segment reporting is improved. In particular, the compensation for loan loss provisions recognised in the guaranteed portfolio will be reported in the respective segment from 30 September 2016. Accordingly, the guarantee fees (based on the regulatory capital of the guaranteed portfolio) will also be allocated to the segments. Other interest effects, which arise, inter alia, under the guarantee as part of the invoicing of losses, which are incurred primarily in the Non-Core Bank following the portfolio reallocation, are accordingly fully allocated in the Non-Core Bank based on the losses invoiced. Other effects included in the former consolidation columns are disclosed in the Group's consolidation column.

"Other and Consolidation" division

The newly implemented "Other and Consolidation" division includes staff divisions and Overall Bank positions. Material income and cost items are therefore allocated to the segments for internal management purposes. Consolidation effects arising from the difference between internal reporting and the Group financial statements are also disclosed in the division. Against this backdrop, expenses for the bank levy and deposit guarantee fund as well as the result from restructuring, which were previously mapped in the consolidation columns of the Core Bank and Restructuring Unit, are reported in the summary consolidation column of the Group.

Most of the Bank's liquidity reserves are reported in the segment assets of this division. The former Corporate Center segment, which included the staff and service divisions including the Transaction Banking product division, were integrated into the "Other and Consolidation" division. Product results of the Transaction Banking division are also fully allocated to the respective client divisions.

Earnings impact of segment changes

Against the backdrop of the segment changes presented above, the earnings reported in the Core Bank have changed significantly. The Core Bank previously included the Shipping, Project & Real Estate Financing segment with the Shipping, Real Estate Clients and Corporate Finance divisions, the Corporate & Markets segment with the Capital Markets and Corporate Clients divisions, the Corporate Center segment (for reporting Overall Bank positions as well as staff and service divisions) and Core Bank consolidation column (for reporting the guarantee effects and other charges such as the result from restructuring and expenses for the bank levy and deposit guarantee fund). From 30 September 2016, the Core Bank comprises the total of the four segments – Real Estate, Shipping, Corporate Clients and Treasury & Markets – excluding consolidation effects.

This resulted in changes in the income and cost items. The change in net income before taxes of the Core Bank is particularly relevant in this regard. Net income before taxes as at 30 September 2016 was higher by approx. € 160 million as a result of the segment changes and amounted to € 535 million. This is due mainly to the fact that expenses for the bank levy and deposit guarantee fund are no longer charged to the Core Bank as well as the restructuring result. These expenses are not allocated to the operating client divisions, which is consistent with the previous approach adopted, and are disclosed in the Consolidation division, which is now separately mapped outside the Core Bank.

The segment changes also impacted the calculation of ROE. The allocation of tied-up capital was accordingly adjusted in connection with the allocation of the guarantee effects to the segments. The tied-up capital is allocated from 30 September 2016 taking account of the guarantee effects and forms the basis for calculating the corresponding ROE. The Core Bank's segment assets are also influenced by the changes in the segment structure. They decrease by approx. € 17 billion to € 48 billion. This is attributable to the change in the allocation of the Corporate Center segment, which, following the changes, is no longer allocated to the Core Bank but to the "Other" division.

Following the changes to the segments the Non-Core Bank comprises the former Restructuring Unit segment and the guarantee effects previously reported in the Restructuring Unit's consolidation column. Against this backdrop the Non-Core Bank's results are largely comparable to the results previously reported under "Total Restructuring Unit". Differences arise correspondingly from the elimination of the charges relating to expenses for the bank levy and deposit guarantee fund as well as the result from restructuring. These expenses are now uniformly reported in the Group's consolidation column.

Core Bank results above expectations

The Core Bank, in which HSH Nordbank's strategic activities are combined, increased its new business in the third quarter of 2016 in a partly very challenging environment and thus made further progress in implementing its client- and sector-based strategy.

In the first nine months of 2016, the Core Bank generated net income before taxes of € 535 million (same period in the previous year: € 347 million), which was significantly above plan and the same period in the previous year. The overall satisfactory operating performance of all segments contributed to this, although interest margins achieved decreased further in the highly competitive environment. The results continued to be adversely impacted by a decrease in the interest-bearing loan volume as a result of scheduled and early loan repayments made by customers and ongoing recovery activities in the Shipping segment.

In addition to new business transacted, the effect of the realisation of hidden reserves by sales of promissory notes and securities as well as measurement effects in net trading income are also reflected in the Core Bank's above plan total income, which increased significantly by € 99 million to € 772 million compared to the same period in the previous year (€ 673 million). Taking into account the portfolio reallocation carried out in the third quarter of 2016, the Core Bank results also benefited from lower loan loss provision expense, which amounted in total to € –13 million after compensation. In this connection, legacy shipping portfolios in the amount of € 5.2 billion were also transferred to the Non-Core Bank, whereby the Core Bank was relieved of non-performing loans designated for winding down. This provided total relief of € 41 million (same period in the previous year: € 8 million) after taking account of the compensation under the second loss guarantee disclosed within loan loss provisions. Implementation of the ongoing cost reduction programme in line with the plan also contributed to the improved Core Bank results. Compared to the same period in the previous year, administrative expenses decreased significantly from € –316 million to € –264 million.

Due to the changes in presentation, expenses for the bank levy and deposit guarantee fund as well as restructuring expenses are disclosed centrally in the “Other and Consolidation” division and are no longer disclosed on a pro rata basis in the previously separate consolidation divisions of the Core Bank and Non-Core Bank (formerly the Restructuring Unit).

Total assets of the Core Bank remained stable and amounted to € 48 billion as at 30 September 2016 (31 December 2015: € 49 billion) against the backdrop of the business developments and movement in the EUR/USD exchange rate (portfolio effect: € –0.2 billion).

Further information can be found in the explanatory comments on the individual segments.

Segment results of the Core Bank

The **Real Estate segment** makes a significant contribution of € 118 million to earnings (same period in the previous year: € 101 million). This performance was clearly positive compared to both the same period in the previous year and the plan and reflects the Bank's good market position in this segment. It was able to increase new business in the first nine months of the year by € 3.1 billion, which was above plan, in an increasingly highly competitive environment. Business in the western German metropolitan regions and with international institutional investors was particularly successful. It was possible to maintain the high market penetration in the core region of northern Germany.

Total income of the **Shipping segment** of € 102 million was almost maintained at the previous year's level (same period in the previous year: € 109 million). As expected, the decrease in interest income was offset by positive measurement effects recognised in net trading income. The significant increase in net income before taxes (€ 92 million) compared to the same period in the previous year (€ 45 million) was driven primarily by loan loss provisions after compensation under the second loss guarantee, which amounted to € 42 million, and also by the effect of the reversal of general loan loss provisions. At large, the shipping market was characterised in the first nine months of 2016 by a continuing challenging market environment. New business transacted with counterparties with a good credit standing was subdued in this period and, at € 0.2 billion, was significantly below the pro rata plan amount. In the last quarter of 2016 the portfolio will be moderately increased in line with the strategy by concluding new business in particular with international clients whilst complying with the strict risk and margin requirements.

The **Corporate Clients segment** generated net income before taxes of € 74 million for the first nine months of 2016 (same period in the previous year: € 93 million). This includes total income of € 178 million (same period in the previous year: € 211 million), in which new business developments in a highly competitive environment are reflected in particular. Compared to the same period in the previous year new business volume increased significantly by € 0.5 billion to € 2.5 billion. However, net interest income was adversely impacted by the low level of interest rates and the good liquidity situation of companies, which is reflected in the scheduled and early loan repayments. The decrease in loan volume was halted in the third quarter of 2016 by the increase in new business transacted compared to the previous year. Most of the Corporate Finance product division, which was previously disclosed in the Shipping, Project & Real Estate Financing segment, was incorporated into the Corporate Clients segment. Developments in the individual business fields are described below.

The financing market for the Logistics & Infrastructure business field was also extremely competitive in the third quarter of 2016. New business of € 0.5 billion has been concluded so far in this business field due to the very good market penetration. Project financing transactions were concluded, inter alia, in the railway transport, district heating systems and data infrastructure sectors.

The Energy & Utilities business filed continued its good new business performance from the first half of the year. The successful conclusion of projects resulted in new business volume increasing to € 0.8 billion after nine months of 2016. In the third quarter of 2016 the focus was on structured project financing transactions in the wind energy sector (onshore projects) in Germany and Scandinavia.

New business concluded in the Trade and Food Industry business fields was increased, particularly in the third quarter of 2016. New business of € 0.6 billion has been concluded to date. The market environment for business conducted with small and medium-sized enterprises is still characterised by an overall restrained loan demand and intense competition. Nevertheless, it has been possible to stabilise loan volume and customer margins. Furthermore, the Trade business field in particular was able to generate stronger earnings with products in the payment transaction and documentary business compared to the same period in the previous year. A significantly higher volume of new business was generated in the Food Industry business field compared to the same period in the previous year, with the focus on food trading and production, which also resulted in higher commission income.

In the Industry & Services and Health Care business fields, new transactions were successfully concluded with existing and new clients through cooperation between corporate client relationship managers and structured finance specialists. In summary, new business of € 0.5 billion was concluded and the client base was expanded in all German locations. The Bank was also successful in expanding its liability business compared to the same period in the previous year and also exceeding the ambitious plan amount.

Business conducted with Wealth Management clients was characterised in the first nine months of 2016 by the impact of the current low interest rate policy on client portfolios.

The new **Treasury & Markets segment** combines trading in financial products and syndication, the associated distribution support activities and the servicing of savings banks, banks and insurance companies. Furthermore, the responsibility for the central management of the liquidity and market price risks in positions held by the Bank as well as the issuer function is anchored in this segment.

The segment generated net income before taxes of € 251 million (same period in the previous year: € 108 million). The distribution of capital markets products generated earnings at the previous year's level and therefore in line with the sector trend, with positive trends in the derivatives business. Deposit business with savings banks and institutional clients also again performed positively in the third quarter of 2016 compared to the same period in the previous year. The increase in earnings compared to the same period in the previous year is also due to the effects of the realisation of hidden reserves by sales of promissory notes and securities.

The Core Bank's results include the essential results of the Transaction Banking product division, which is organisationally assigned to the "Other and Consolidation" division. Product net income amounted to a total of € 12.5 million (same period in the previous year: € 17.3 million), which mainly includes income from the use of products by customers in the area of payment transactions, account management including investment products and foreign trade documentary business. 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 fully disclosed in the customer divisions.

High level of loan loss provisions in the Non-Core Bank

As expected, the Non-Core Bank, in which non-performing loans earmarked for winding down are combined, disclosed a net loss of € –151 million as at 30 September 2016 (same period in the previous year: € –79 million). The loss is attributable mainly to the continued winding down of the portfolio and the setting of loans to a non-accrual basis as part of the recognition of loan loss provisions. This resulted in a further reduction in interest-bearing loans and thus to a sharp decrease in net interest income.

Total income of the Non-Core Bank amounted to € 37 million (same period in the previous year: € 336 million), to which net interest income of € 20 million (same period in the previous year: € 211 million) and net income from financial investments of € 36 million (same period in the previous year: € 50 million) made a positive contribution and net trading income of € –37 million a negative contribution (same period in the previous year: € 51 million).

Net income before taxes was also adversely impacted by particularly high loan loss provision expense of € –968 million for shipping loans (same period in the previous year: € –469 million). This was compensated for in the guaranteed portfolio by the guarantee. Loan loss provision income amounted to € 459 million (same period in the previous year: € 5 million). Including the hedging effect of the credit derivative loan loss provisions for the Non-Core Bank after taking the guarantee effect into account would have amounted to a total of € 88 million (same period in the previous period: € 2 million).

Administrative expenses amounted to € –181 million (same period in the previous year: € –183 million) and the expense for the second loss guarantee to € –146 million (same period in the previous year: € –313 million). Expenses for the bank levy and deposit guarantee fund as well as restructuring expenses are disclosed centrally in the "Other and Consolidation" division" due to the changes in presentation and are no longer disclosed on a pro rata basis in the previously separate consolidation divisions of the Core Bank and Non-Core Bank.

Total assets of the Non-Core Bank decreased to € 23 billion as at 30 September 2016 (31 December 2015: € 32 billion) after taking account of the movement in the US dollar exchange rate (portfolio effect: € –0.2 billion).

"Other and Consolidation" division

Staff functions and Overall Bank positions not allocated to segments are disclosed in the "Other and Consolidation" division. The division also comprises consolidation effects that reconcile the internal reporting results presented in the segment report to the Group financial statements prepared in accordance with IFRS. In addition to the measurement and disclosure differences, expenses for the bank levy and deposit guarantee fund as well as restructuring expenses are also fully allocated to the division.

Net loss before taxes amounted to € –201 million as at 30 September 2016 (same period in the previous year: € –158 million), which is attributable mainly to consolidation effects, expenses of € –56 million for the bank levy and deposit guarantee fund (same period in the previous year: € –54 million) and restructuring expenses of € –118 million (same period in the previous year: € –18 million) incurred in connection with the planned headcount reduction. Income from the management of liquidity and capital positions made a positive contribution to the results. The Transaction Banking product division generated product net income of € 12.5 million (same period in the previous year: € 17.3 million). Under the Bank's business management policy, net income of the Transaction Banking product division is largely disclosed in the Core Bank's segments and, to a lesser extent, in the Non-Core Bank.

The liquidity reserve not allocated to segments is disclosed in the segment assets of the "Other" division. This amounted to € 16 billion as at 30 September 2016 (31 December 2015: € 17 billion).

OUTLOOK

The following section should be read in conjunction with the other sections in this financial information and the Group Management Report in HSH Nordbank's Interim Report as at 30 June 2016. The forward-looking statements contained in this financial information are based on assumptions and conclusions based on information currently available to the Bank at the time the report was prepared. 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 control. Therefore, actual events may differ from the following forward-looking statements below.

2016 forecast confirmed – net profit for the year expected

Against the backdrop of the EU structural measures, which have already been implemented in line with the plan, and on the basis of the good nine-month results, HSH Nordbank is confident that it will achieve the goals set for the whole of 2016. To this end, the Bank will continue to consistently drive forward its client business over the coming months on the basis of the operating progress achieved and, at the same time, implement the ongoing strategic and operating optimisation measures to ensure sustainable competitiveness and in preparation for the change in ownership. The aim is also to quickly wind down the troubled assets combined in the Non-Core Bank, which are still covered by the guarantee facility provided by the federal states, over and above the adjustments planned as part of the portfolio transactions.

Overall, the basis for a sustainable alignment of the Bank is further strengthened and a business model is created for HSH Nordbank which, not least, should convince clients, employees and investors and facilitate a successful privatisation process.

Significant risks regarding future developments of HSH Nordbank arise primarily from the continuing very difficult market conditions in the shipping industry. Against this backdrop, the future development of charter rates and ship values and, in this respect, the assessment of the long-term trend of loan loss provisions is subject to uncertainties. In this regard, the Bank also expects that further material loan loss provisions will have to be recognised in the fourth quarter of 2016, which will be within the range of the forecasts made in the Interim Report as at June 30 2016.

There also arise combined challenges associated with the low level of interest rates and highly competitive environment, volatility in the financial and currency markets (the USD in particular), further implementation of the EU decision, changing assessments of the rating agencies and evolving requirements of the European banking regulation.

These give rise to corresponding uncertainties regarding the achievement of the forecast developments. Nevertheless, HSH Nordbank is confident that it will further develop the Bank on a forward-looking basis in line with its restructuring plan and be able to meet the challenges facing it. The future results of HSH Nordbank are likely to benefit noticeably over the coming years from the implementation of the structural measures of the EU proceedings and further implementation of the strategy.

For 2016 as a whole, the Bank still expects a significant reduction in net income before taxes at the Group level in line with the plan compared to the previous year, due to the material non-recurring items recognised in the 2015 financial year on the basis of the informal agreement. For the same reason, the return on equity for the Group will probably decline significantly in 2016 compared to the previous year. Net income before taxes higher than that at the Group level is still expected for the Core Bank for 2016, taking into account the executed segment changes as of 30 September 2016. Compared to 2015, the positive effects arising from the structural measures that were recognised in the 2015 Group financial statements will also result in a reduction in net income before taxes and the return on equity for the Core Bank year on year. The expected net income of the Non-Core Bank will also decrease sharply due to the continued winding down of portfolios. The Bank assumes that net income before taxes for the Non-Core Bank for 2016 will expectedly be negative, or significantly negative following the portfolio reallocation.

Overall, the Bank is confident on the basis of the nine months results that the earnings, cost and net income targets set for the whole of 2016 can be achieved. Based on the satisfactory new business performance in the third quarter of 2016 it is expected that earnings and net income will be overall in line with the plan, also for the Core Bank. Nevertheless, the Bank remains highly cautious in its forecast for the whole of 2016 given the continuing challenging environment for banks in general and HSH Nordbank in particular.

Planned change in owners

The Bank will vigorously step up its ongoing preparations for the privatisation process over the coming months. In accordance with the EU Commission's decision, the sale of the operating HSH Nordbank AG in total or business divisions or parts thereof is permitted with the consent of the public owners; the decision sets a deadline (which can be extended) of 28 February 2018 for the sale. In this regard, the Bank is confident that it has laid the foundations for a flexible and successful privatisation process with the organisational and structural measures implemented in the third quarter of 2016.

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

(i) the agreements required for the implementation of the formal decision taken by the EU Commission in the EU state aid proceedings on the replenishment of the second-loss guarantee are entered into comprehensively and on a timely basis and that the formal decision will be implemented by HSH Nordbank AG and its shareholders in full and on a timely basis;

(ii) the operating company, HSH Nordbank AG, is sold at a positive sale price in an open, non-discriminatory, competitive and transparent process not involving state aid until 28 February 2018 and the EU Commission grants its approval for the acquisition following a viability assessment of the new corporate structure. Should the divestment procedure not lead to offers not requiring state aid with a positive price being offered before the expiry of the deadline, or should the EU Commission in the course of its viability assessment come to the conclusion that the integration of the operating company into the new corporate structure will not lead to a viable business model that is profitable in the long term, the operating company will cease new business and manage its assets as far as legally permissible with the aim of a structured winding down of its business. In the event of significant unexpected outflows of funds (e.g. in the scenario described above), measures must be taken to strengthen the liquidity position.

It is further required that acceptance by market participants and other relevant stakeholders necessary for the successful implementation of HSH Nordbank AG's business model and the requirements under the formal decision of the EU Commission is maintained or gained and that the expected recovery of the shipping markets materialises.

Further details on expectations for the current year and significant opportunities and risks are set out in the detailed Group Management Report in HSH Nordbank's Interim Report as at 30 June 2016.

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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 solely for the sake of better readability.

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FORWARD-LOOKING STATEMENTS

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 that we consider to be reliable. A forward-looking statement involves information that does not simply reflect historical facts, including information relating to possible or expected future growth and future economic development.

Such forward-looking statements are based on a number of assumptions concerning future events and are subject to uncertainties, risks and other factors, many of which are beyond our control. Therefore actual events may differ considerably from those forecast in the forward-looking statements. In view of this, you are advised never to rely to an inappropriate degree on forward-looking statements. We cannot accept any liability for the accuracy or completeness of these statements or for the actual realisation of the forecasts made in this Financial Information. Furthermore, we are not obliged to update the forward-looking statements following publication of this information. In addition, information contained in this Financial Information does not represent any kind of offer for the acquisition or sale of any type of securities of HSH Nordbank AG.

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