## KEY FIGURES

### INCOME STATEMENT

<table>
<thead>
<tr>
<th></th>
<th>January – March 2016</th>
<th>January – March 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income before restructuring</td>
<td>40</td>
<td>357</td>
</tr>
<tr>
<td>Net income before taxes</td>
<td>–36</td>
<td>234</td>
</tr>
<tr>
<td>Group net result</td>
<td>–44</td>
<td>206</td>
</tr>
</tbody>
</table>

### BALANCE SHEET

<table>
<thead>
<tr>
<th></th>
<th>31.03.2016</th>
<th>31.12.2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>4.7</td>
<td>4.9</td>
</tr>
<tr>
<td>Total assets</td>
<td>92.8</td>
<td>97.0</td>
</tr>
<tr>
<td>Business volume</td>
<td>101.0</td>
<td>106.2</td>
</tr>
</tbody>
</table>

### CAPITAL RATIOS\(^1\)

<table>
<thead>
<tr>
<th></th>
<th>31.03.2016</th>
<th>31.12.2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>CET1 ratio</td>
<td>12.0</td>
<td>12.3</td>
</tr>
<tr>
<td>Tier 1 capital ratio</td>
<td>15.6</td>
<td>16.4</td>
</tr>
<tr>
<td>Regulatory capital ratio</td>
<td>20.2</td>
<td>20.6</td>
</tr>
</tbody>
</table>

### EMPLOYEES

(calculated on the basis of full-time equivalents)

<table>
<thead>
<tr>
<th></th>
<th>31.03.2016</th>
<th>31.12.2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>2,345</td>
<td>2,384</td>
</tr>
<tr>
<td>Germany</td>
<td>2,237</td>
<td>2,264</td>
</tr>
<tr>
<td>Abroad</td>
<td>108</td>
<td>120</td>
</tr>
</tbody>
</table>

### LONG-TERM RATINGS

<table>
<thead>
<tr>
<th></th>
<th>Moody’s</th>
<th>Fitch</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-guaranteed liabilities</td>
<td>Baa3</td>
<td>BBB-</td>
</tr>
<tr>
<td>Guaranteed liabilities</td>
<td>Aa1</td>
<td>AAA</td>
</tr>
<tr>
<td>Public sector Pfandbriefe</td>
<td>Aa2</td>
<td>–</td>
</tr>
<tr>
<td>Mortgage Pfandbriefe</td>
<td>Aa3</td>
<td>–</td>
</tr>
<tr>
<td>Ship Pfandbriefe</td>
<td>Baa2</td>
<td>–</td>
</tr>
</tbody>
</table>

\(^1\) According to the same period calculation under the Capital Requirements Regulation (CRR).
\(^2\) Liabilities covered by the guarantee obligation (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.
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 31 March 2016

### Income Statement

<table>
<thead>
<tr>
<th></th>
<th>January – March 2016</th>
<th>Following adjustment¹</th>
<th>Change in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>898</td>
<td>1,246</td>
<td>−28</td>
</tr>
<tr>
<td>Negative interest resulting from deposits and derivatives</td>
<td>−32</td>
<td>7</td>
<td>&gt;100</td>
</tr>
<tr>
<td>Interest expense</td>
<td>−707</td>
<td>947</td>
<td>−25</td>
</tr>
<tr>
<td>Positive interest resulting from borrowings and derivatives</td>
<td>26</td>
<td>3</td>
<td>&gt;100</td>
</tr>
<tr>
<td>Net income from hybrid financial instruments</td>
<td>−33</td>
<td>−28</td>
<td>−18</td>
</tr>
<tr>
<td>Net interest income</td>
<td>152</td>
<td>267</td>
<td>−43</td>
</tr>
<tr>
<td>Net commission income</td>
<td>25</td>
<td>38</td>
<td>−34</td>
</tr>
<tr>
<td>Result from hedging</td>
<td>1</td>
<td>5</td>
<td>−80</td>
</tr>
<tr>
<td>Net trading income</td>
<td>33</td>
<td>27</td>
<td>22</td>
</tr>
<tr>
<td>Net income from financial investments</td>
<td>61</td>
<td>5</td>
<td>&gt;100</td>
</tr>
<tr>
<td>Net income from financial investments accounted for under the equity method</td>
<td>−</td>
<td>−</td>
<td>−</td>
</tr>
<tr>
<td><strong>Total income</strong></td>
<td>272</td>
<td>342</td>
<td>−20</td>
</tr>
<tr>
<td>Loan loss provisions</td>
<td>−73</td>
<td>202</td>
<td>&gt;100</td>
</tr>
<tr>
<td>Hedging effect of the credit derivative under the second loss guarantee</td>
<td>34</td>
<td>−</td>
<td>−</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>−144</td>
<td>−162</td>
<td>−11</td>
</tr>
<tr>
<td>Other net operating income</td>
<td>13</td>
<td>15</td>
<td>−13</td>
</tr>
<tr>
<td>Expenses for bank levy and deposit guarantee fund²</td>
<td>−62</td>
<td>−40</td>
<td>−55</td>
</tr>
<tr>
<td><strong>Net income before restructuring</strong></td>
<td>40</td>
<td>357</td>
<td>−89</td>
</tr>
<tr>
<td>Result from restructuring</td>
<td>−14</td>
<td>−5</td>
<td>&gt;−100</td>
</tr>
<tr>
<td>Expenses for government guarantees</td>
<td>−62</td>
<td>−118</td>
<td>−47</td>
</tr>
<tr>
<td><strong>Net income before taxes</strong></td>
<td>−36</td>
<td>234</td>
<td>&gt;−100</td>
</tr>
<tr>
<td>Income taxes</td>
<td>−8</td>
<td>−28</td>
<td>71</td>
</tr>
<tr>
<td><strong>Group net result</strong></td>
<td>−44</td>
<td>206</td>
<td>&gt;−100</td>
</tr>
<tr>
<td>Group net result attributable to non-controlling interests</td>
<td>−</td>
<td>−</td>
<td>−</td>
</tr>
<tr>
<td>Group net result attributable to HSH Nordbank shareholders</td>
<td>−44</td>
<td>206</td>
<td>&gt;−100</td>
</tr>
</tbody>
</table>

¹ Adjusted in accordance with IAS 1.41.

² Contribution to the deposit guarantee fund of €−14 million is included in Other operating income as at 31 March 2015.
## BALANCE SHEET

### ASSETS

<table>
<thead>
<tr>
<th></th>
<th>31.03.2016</th>
<th>31.12.2015</th>
<th>Change in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash reserve</td>
<td>1,766</td>
<td>3,394</td>
<td>-48</td>
</tr>
<tr>
<td>Loans and advances to banks</td>
<td>4,830</td>
<td>5,595</td>
<td>-14</td>
</tr>
<tr>
<td>Loans and advances to customers</td>
<td>54,371</td>
<td>56,575</td>
<td>-4</td>
</tr>
<tr>
<td>Loan loss provisions</td>
<td>-982</td>
<td>-1,065</td>
<td>-8</td>
</tr>
<tr>
<td>Credit derivative second loss guarantee</td>
<td>698</td>
<td>663</td>
<td>5</td>
</tr>
<tr>
<td>Positive fair value of hedging derivatives</td>
<td>682</td>
<td>783</td>
<td>-13</td>
</tr>
<tr>
<td>Positive adjustment item from portfolio fair value hedges</td>
<td>497</td>
<td>408</td>
<td>22</td>
</tr>
<tr>
<td>Trading assets</td>
<td>8,133</td>
<td>7,356</td>
<td>11</td>
</tr>
<tr>
<td>Financial investments</td>
<td>16,494</td>
<td>16,636</td>
<td>-1</td>
</tr>
<tr>
<td>Financial investments accounted for under the equity method</td>
<td>9</td>
<td>2</td>
<td>&gt;100</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>16</td>
<td>16</td>
<td>-</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>471</td>
<td>474</td>
<td>-1</td>
</tr>
<tr>
<td>Investment property</td>
<td>63</td>
<td>64</td>
<td>-2</td>
</tr>
<tr>
<td>Non-current assets held for sale and disposal groups</td>
<td>4,755</td>
<td>5,082</td>
<td>-6</td>
</tr>
<tr>
<td>Current tax assets</td>
<td>79</td>
<td>79</td>
<td>-</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>779</td>
<td>748</td>
<td>4</td>
</tr>
<tr>
<td>Other assets</td>
<td>185</td>
<td>163</td>
<td>13</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>92,846</strong></td>
<td><strong>96,973</strong></td>
<td><strong>-4</strong></td>
</tr>
</tbody>
</table>

### LIABILITIES

<table>
<thead>
<tr>
<th></th>
<th>31.03.2016</th>
<th>31.12.2015</th>
<th>Change in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities to banks</td>
<td>10,975</td>
<td>14,398</td>
<td>-24</td>
</tr>
<tr>
<td>Liabilities to customers</td>
<td>44,479</td>
<td>44,567</td>
<td>-0</td>
</tr>
<tr>
<td>Securitised liabilities</td>
<td>17,623</td>
<td>18,616</td>
<td>-5</td>
</tr>
<tr>
<td>Negative fair value of hedging derivatives</td>
<td>584</td>
<td>727</td>
<td>-20</td>
</tr>
<tr>
<td>Negative adjustment item from portfolio fair value hedge</td>
<td>952</td>
<td>872</td>
<td>9</td>
</tr>
<tr>
<td>Trading liabilities</td>
<td>7,312</td>
<td>6,758</td>
<td>8</td>
</tr>
<tr>
<td>Provisions</td>
<td>1,579</td>
<td>1,517</td>
<td>4</td>
</tr>
<tr>
<td>Liabilities relating to disposal groups</td>
<td>1</td>
<td>1</td>
<td>-100</td>
</tr>
<tr>
<td>Current tax liabilities</td>
<td>93</td>
<td>151</td>
<td>-38</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>2</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>1,054</td>
<td>1,029</td>
<td>2</td>
</tr>
<tr>
<td>Subordinated capital</td>
<td>3,454</td>
<td>3,452</td>
<td>-0</td>
</tr>
<tr>
<td>Equity</td>
<td>4,739</td>
<td>4,885</td>
<td>-3</td>
</tr>
<tr>
<td>Share capital</td>
<td>3,018</td>
<td>3,018</td>
<td>-</td>
</tr>
<tr>
<td>Capital reserve</td>
<td>175</td>
<td>175</td>
<td>-</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>1,508</td>
<td>1,464</td>
<td>3</td>
</tr>
<tr>
<td>Revaluation reserve</td>
<td>73</td>
<td>103</td>
<td>-29</td>
</tr>
<tr>
<td>Currency conversion reserve</td>
<td>24</td>
<td>42</td>
<td>-43</td>
</tr>
<tr>
<td>Group net result</td>
<td>-44</td>
<td>99</td>
<td>&gt;100</td>
</tr>
<tr>
<td>Total before non-controlling interests</td>
<td>4,754</td>
<td>4,901</td>
<td>-3</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>-15</td>
<td>-16</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total equity and liabilities</strong></td>
<td><strong>92,846</strong></td>
<td><strong>96,973</strong></td>
<td><strong>-4</strong></td>
</tr>
</tbody>
</table>
BUSINESS DEVELOPMENTS AS AT 31 MARCH 2016

INFORMAL AGREEMENT REACHED WITH EU COMMISSION
On 19 October 2015, the majority owners of HSH Nordbank, Hamburg and Schleswig-Holstein, the Federal Republic of Germany and the EU Commission, reached an informal agreement in the current EU state aid proceedings to provide significant relief to the Bank's operating business from the adverse impact of troubled assets and guarantee fees, which, following the implementation of the individual measures, should improve the financial and risk situation and form the basis for a sustainable and viable structure of HSH Nordbank. It is also intended that HSH Nordbank be privatised by 2018.

After obtaining the assent of the state parliaments of Hamburg and Schleswig-Holstein and the binding commitment of the federal states of Hamburg and Schleswig-Holstein, the impact of the informal agreement on the net assets, financial position and earnings was accordingly taken into account in the accounting rules applied to the 2015 single entity financial statements and Group financial statements.

FORMAL DECISION IN THE CURRENT EU STATE AID PROCEEDINGS
On 2 May 2016, the EU Commission issued a formal decision in the current EU state aid proceedings and approved the replenishment of the second loss guarantee provided by the federal states from €7.0 billion to €10.0 billion. The formal decision confirms the informal agreement and, in principle, defines it in concrete terms. It is based on a list of commitments provided by the Federal Republic of Germany to the EU Commission. This achieved an overall viable solution for the Bank and significantly improved the basis for a sustainable business model of HSH Nordbank.

Under the formal decision HSH Nordbank AG is to be relieved of some of its troubled legacy portfolios. Accordingly, it is planned to transfer portfolios of an initial amount of €5 billion to the federal states in the middle of 2016. The transfer will be made at market values determined by the EU Commission from a state aid point of view. Furthermore, it is planned on the basis of the formal decision of the EU Commission to sell portfolios of up to €3.2 billion.

A further key point of the formal decision of the EU Commission is the future structure of the guarantee fees that involves the formation of a holding company and a subsidiary, which will comprise HSH Nordbank's operating business and is to be privatised. The operating company shall pay in future a significantly lower amount of guarantee fees. Beginning with the first quarter of 2016, the base premium is 2.2% (previously 4%) and is calculated solely on the non-utilised, i.e. undrawn, portion of the guarantee.

Under the formal decision, a deadline of 28 February 2018 is set for the sale of the operating company (i.e. up to the signing of the acquisition agreement). This divestiture period may be extended by up to six months with the agreement of the EU Commission, where there are delays in the technical implementation of the model for reasons outside the control of the federal states.

In the first quarter of 2016, HSH Nordbank has been actively preparing for the implementation of the informal agreement. The focus was on preparing for the transfer of the shipping loan portfolio of €5 billion to hsh portfolio management AöR formed by the federal state owners and the establishment of the holding structure by the owners. In addition to the preparation and specification of the EU agreement, the Bank has taken the first steps in the divestiture process. An investment bank has already been appointed by the federal state owners.

Further details regarding the EU proceedings and the impact of the informal agreement on the Bank's consolidated financial statements are set out in the 2015 Annual Report of HSH Nordbank published on 9 June 2016, particularly the statements made in the Group Management Report.

OVERVIEW OF BUSINESS PERFORMANCE
HSNordbank's operating activities were vigorously driven forward in the first quarter of 2016 notwithstanding that the formal decision of the EU had not yet been issued in the reporting period. The main focus was on the implementation of the informal agreement and formal decision of the EU Commission, structural measures and, at the same time, development of new business in the Core Bank in a challenging market environment. Legacy assets were further reduced in the Restructuring Unit with the focus on the shipping and capital market portfolios. Restructuring activities were further intensified in the shipping sector. The Bank has also made progress in line with the plan in optimising the organisation and processes as part of the ongoing cost-reduction programme. Overall, the Group’s development was characterised by a satisfactory operating result for the Core Bank and non-operational burdens in the Restructuring Unit.

Focused new business development in the Core Bank in highly competitive environment
New business in the Core Bank amounted to €1.7 billion for the first quarter of 2016 and, while complying with strict internal risk and income requirements, is in total significantly below that of the same period in the previous year (€2.6 billion). While in line with the plan, the Real Estate division recorded the most pronounced decrease compared to the same period in the previous year due to the selective expansion of new business. New business transacted in the Corporate Clients division was stable at the level of the same period in the previous year. Developments in this division in the first quarter of 2016 fell short of expectations mainly as a result of subdued client loan demand and adherence to the defined level of profitability in an overall challenging competitive environment. The targeted reduction in new
business in the shipping sector against the backdrop of the difficult
market situation also contributed to the overall weaker new business
trend. This is below the pro rata plan for the first quarter of 2016.

Details on new business transacted in the individual divisions are set
out in the Segments section.

The ratio of new loans disbursed to new business concluded (dis-
bursement ratio) increased compared to the previous year and is
above the pro rata target level. Interest margins achieved in the highly
competitive environment declined compared to the previous year, but
were still at the defined level of profitability. Cross-selling income
generated by banking services over and above loan financing was in
line with the plan. Investment products were the services most in
demand with Core Bank clients. Loan commissions received are
above plan, while cross-selling income in the derivatives area is below
the pro rata plan and level of the same period in the previous year, due
mainly to market conditions. Lower loan commissions were received
for restructuring activities in both the Shipping division and Restruc-
turing Unit as a result of the progress made in reducing risk, which
was the main contributory factor in cross-selling income being overall
slightly below that for the same period in the previous year.

Accelerated winding down of legacy portfolios
Following the sharp reduction in 2015, the winding down of legacy
portfolios in the Restructuring Unit continued in the first quarter of
2016 according to plan. The portfolio was reduced by € 1 billion.
Legacy assets in the real estate and capital market portfolios in par-
ticular were reduced.

Despite the continuing very difficult conditions in the shipping indu-
stry the winding down of non-performing ship financing transactions
was also further continued in 2016 by means of structural solutions
for shipping loans. Under these, shipping loan tranches are transferred
to investors, thereby reducing the Bank’s portfolio risks. At the same
time, the Bank is guaranteed the possibility under the transactions to
participate in any recovery in the shipping industry. The foundations
for a further five transactions were laid in the first quarter of 2016.
The Bank expects to conclude these transactions over the coming
months.

HSH Nordbank has further reduced the capital market sub-portfolios
in the Restructuring Unit. The capital market portfolio was wound
down by a total amount of € 0.5 billion in the first quarter of 2016.

Cost optimisation continued
The ongoing cost-reduction programme, through which HSH Nord-
bank is countering not least the increasing 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 have contrib-
uted to a further significant reduction in administrative expenses
compared to the same period in the previous year. The reduction in
staff resulting from the restructuring also had an impact in this regard.
The Bank will also work with as much determination as before to
improve cost efficiency in order to achieve a reasonable cost-income
ratio of under 50% on a sustained basis. In this context, the Manage-
ment Board has announced a further intensification of the ongoing
cost-reduction programme. Details regarding this are to be worked
out over the coming months. Implementation is to be started in 2016.

Satisfactory operating performance – adversely
impacted by loan loss provisions and portfolio
reduction
Net income before taxes amounted to € -36 million after taking into
account the annual contributions for the European bank levy and
deposit guarantee fund of € -62 million in total. This was in line with
expectations and was significantly below that for the same period in
the previous year (€ 234 million), which was positively affected by
non-recurring items. Overall, HSH Nordbank’s operating business
developed satisfactorily in a generally highly competitive environment
and a period mainly marked by the implementation of the informal
agreement and negotiations with the EU Commission. Loan loss
provisions, inter alia, which benefited considerably in the previous
year from a debt waiver, had an adverse impact. After deducting
income tax expense, the Group net result amounted to € -44 million
(same period in the previous year: € 206 million).

Total income of € 272 million was above plan but below that for
the same period in the previous year (€ 342 million). Net interest
income decreased markedly from € 267 million (31 March 2015) to
€ 152 million for the first quarter of 2016. This reduction is partially
attributable to the elimination of the one-off hedge accounting effect
of € 48 million recognised in the same period in the previous year.
Furthermore, the positive income impact of new business develop-
ment was offset by the negative effects of a significant decrease in the
interest-bearing volume of loans and advances, which is related to the
additions to loan loss provisions in the previous year. This was par-
tially offset by the sharp increase in net income from financial invest-
ments. Gains arising on the sale of securities in particular had a posi-
tive impact.

The Bank recognised comprehensive and extremely high loan loss
provisions, especially for the shipping portfolio, in the 2015 financial
year. Additions were also again required in the first quarter of 2016 for
shipping loans in order to continue to take account of the sustained
very difficult market conditions in the shipping industry. On the other
hand, the corporate clients’ and real estate clients’ portfolios were
significantly affected by the net release of loan loss provisions, which
was based on loan principal repayments and improved risk assess-
ments.

Loan loss provision expense and direct write-downs amounted to
€ -62 million (31 March 2015: € -113 million). Taking account of the
hedging effect of the credit derivative (as a component of the second
loss guarantee) this results in total in an expense of € -39 million
compared to income of € 202 million in the same period in the previous year. Loan loss provision income of € 289 million recognised in the same period in the previous year benefited, in particular from a debt waiver, which had a positive impact on the compensation item.

Against the backdrop of the ongoing cost-reduction programme, the marked reduction in operating and personnel expenses compared to the same period in the previous year also made a positive contribution to the net result for the first three months. Administrative expenses decreased significantly by € 18 million to € -144 million.

The net result was adversely impacted to a substantial extent by the annual contributions for the bank levy and deposit guarantee fund totalling € -62 million. Furthermore, significantly reduced premium expense of € -62 million compared to the same period in the previous year had to be recognised for the second loss guarantee as a result of the informal agreement.

Positive net income of Core Bank adversely impacted by recognition of loan loss provisions for shipping loans

The Core Bank, in which the strategic divisions of HSH Nordbank are combined, generated above plan net income before taxes of € 68 million for the first three months of 2016 (same period in the previous year: € 109 million). This result was positively driven by total income (€ 274 million) which exceeded that for the same period in the previous year by € 86 million. Measurement effects recognised in net trading income as well as net commission income in particular also made a contribution to this, in addition to new business concluded.

Net income continued to be adversely impacted by scheduled and early loan principal repayments, which resulted in a decrease in the interest-bearing volume of loans and advances, and by restructuring activities (forbearance measures such as deferrals) in the shipping lending business. Significantly higher loan loss provision expense than that for the same period in the previous year also had a negative effect, as loan loss provisions in this period had still benefited from the debt waiver. Net income was also adversely impacted by the bank levy and deposit guarantee expense.

The Core Bank achieved a good return on equity of 12% (previous year: 21%) on the basis of this positive result. The Core Bank's cost-income ratio was an extremely satisfactory 40% (previous year: 60%).

The Corporate Clients and Real Estate Clients divisions in particular contributed to the overall satisfactory performance of the Core Bank. Corporate Clients and Real Estate Clients generated strong earnings contributions of € 46 million and € 36 million, respectively, within the individual segments.

Negative result of the Restructuring Unit due mainly to portfolio reduction

Net income before income taxes amounted to € -104 million as at 31 March 2016 (same period in the previous year: € 125 million). The significant decrease is attributable mainly to the continued and accelerated winding down of the portfolio. This resulted in a further reduction in the interest-bearing volume of loans and advances and corresponding sharp fall in net interest income. Net income was also negatively impacted by measurement effects relating to customer derivatives. Net trading income had made a positive overall contribution to the Restructuring Unit's net income in the previous year. Higher loan loss provision expense for shipping loans also had a negative effect, which was, however, partially offset by the release of loan loss provisions for international real estate and corporate loans.

Further details on the reasons underlying the business performance are set out in the following 'Earnings', 'Net assets and financial position' and 'Segments' sections.
**Earnings Situation**

**Total Income**

Total income decreased in the first quarter of 2016 to €272 million compared to €342 million in the same period in the previous year. Based on the expected decrease in the interest-bearing volume of loans and advances, the Bank assumed in its planning that total income would decrease accordingly.

Total income for the first three months was largely driven by net interest income, which contributed €152 million compared to €267 million (including the one-off hedge accounting effect of €48 million) in the same period in the previous year. The slightly above plan net interest income was driven by new business concluded at satisfactory margins and loan extensions. The overall positive effect of customer business was partially offset by the accelerated reduction in the Restructuring Unit’s portfolio and a higher level of loan principal repayments.

Net commission income amounted to €25 million as at 31 March 2016 compared to €38 million as at the same reporting date in the previous year. This decrease is primarily attributable to lower cross-selling income in the derivatives area as well as the reduction in restructuring fees in the Restructuring Unit as the result of the significant portfolio reduction.

Net trading income made a contribution of €33 million to total income for the first three months of 2016 (same period in the previous year: €27 million including hedge accounting charge of €-26 million). This development is marked by measurement effects caused by volatility in the financial and currency markets. The measurement of EUR/USD basis swaps (€18 million), currency translation effects, particularly the translation of the hedging of equity holdings denominated in foreign currency (€19 million) and operating successes in the client business (€35 million including hedge effects) had a positive effect. Net trading income was adversely impacted by €-45 million relating to measurement effects in the derivative area that arose primarily as a result of the decrease in long-term EUR and USD interest rates and substantial widening of CDS spreads.

Net income from financial investments amounted to €61 million and was driven by realised gains arising on the sale of securities (€69 million). It was adversely impacted by impairment losses of €7 million recognised on equity holdings. In total, net income was significantly higher than that for the same period in the previous year (€5 million), which was negatively affected by measurement results in the credit investment portfolio and portfolio valuation allowances for securities.

**Continuing High Level of Loan Loss Provisions**

Loan loss provisions for the first three months of 2016 continued to be dominated by additions in the shipping portfolio to reflect the ongoing very difficult market developments. The additional loan loss provision expense for legacy shipping portfolios was mainly accounted for by loans for bulk carriers and container ships due to the continued weak charter rates in these ship segments.

However, the risk trend in other business sectors remained insignificant. The corporate clients’ and real estate clients’ portfolios were considerably affected by the net release of loan loss provisions, which was based on loan principal repayments and improved risk assessments.

Despite the measures taken for the legacy portfolios, this resulted in total in significantly lower net loan loss provision expense of €-62 million as at 31 March 2016 than that for the same period in the previous year (€-113 million) and the pro rata plan amount before taking the compensation effect of the guarantee into account.

Loan loss provisions recognised in particular for legacy portfolios continued to be largely compensated for by the guarantee. Compensation for the guaranteed portfolio amounted to €-11 million, taking currency translation gains and losses into account. The relief provided in the same period in the previous year amounted to €315 million, in particular because of the favourable debt waiver.

After taking the compensating effects under the guarantee into account the loan loss provision expense disclosed amounted to €-73 million (same period in previous year: €202 million). After taking account of the hedging effect of the credit derivative, an expense of €-39 million remained compared to income of €202 million in the same period in the previous year, which benefited considerably from a debt waiver.
The hedging effect of the guarantee has still not resulted in a cash drawdown. The Bank's first loss piece (€ 3.2 billion) was utilised by actual payment defaults of € 2.4 billion as at the reporting date (losses submitted for settlement). In view of the expected losses arising from the portfolio sales to the federal states and in the market provided for under the informal agreement and formal decision, the payment defaults in the portfolio covered by the second loss guarantee will increase over the course of 2016 to above the Bank's first loss piece of € 3.2 billion and then result in actual payments by the guarantors under the second loss guarantee.

The expected actual payments under the guarantee are offset by significant fees already paid for the guarantee. Base premiums recognised through profit or loss by HSH Nordbank and payable to the guarantors (excluding the one-off payment of € 0.5 billion) have increased to € 2.8 billion as at 31 March 2016 (current base premium plus subsequent base premium payment for the replenishment of the guarantee facility in mid-2013).

**Noticeable reduction in administrative expenses**

Administrative expenses were reduced significantly as expected to € -144 million for the first three months of 2016 (same period in the previous year: € -162 million). Overall, the decrease compared to the same period in the previous year reflects the savings realised under the ongoing cost-reduction programme.

Operating expenses (excluding depreciation/amortisation) decreased markedly to € -71 million compared to € -80 million in 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. Savings continue to be offset by high costs incurred for the implementation of regulatory and accounting requirements.

Depreciation of property, plant and equipment and amortisation of intangible assets decreased to € -8 million compared to € -11 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.

Other operating income amounted to € 13 million (same period in the previous year: € 15 million including the contribution of € -14 million to the deposit guarantee scheme of the Savings Banks Finance Group).

**Reduction in base premium expense**

The base premium expense for the second loss guarantee amounted to € -62 million for the first three months (same period in the previous year: € -118 million). The reduction in the premium is attributable mainly to the informal agreement reached with the EU Commission and the resulting decrease from 1 January 2016 in the base premium payable by the operating company from 4% (calculated on the guarantee facility) to 2.2% (calculated on the undrawn, i.e. unutilised, portion of the guarantee, which is disclosed on the reduced basis for the first time in the financial statements as at 31 March 2016).

**Slightly negative Group net result for the first three months**

Although adversely impacted by the recognition of the annual contributions for the bank levy and deposit guarantee scheme, HSH generated in line with expectations slightly negative net income before taxes of € -36 million for the first three months of 2016 (same period in the previous year: € 234 million). After deducting tax effects, the Group net result amounted to € -44 million (same period in the previous year: € 206 million).

Income taxes amounted to € -8 million as at 31 March 2016 and comprise current tax expense of € -3 million and deferred tax expense of € -5 million.
NET ASSETS AND FINANCIAL POSITION

Further reduction in total assets
Total assets decreased further in the first quarter of 2016 to € 92,846 million (31 December 2015: € 96,973 million). The increased winding down of risk positions in the Restructuring Unit as well as loan principal repayments made a key contribution to this.

Most line items on the asset side of the balance sheet decreased. Loans and advances to banks decreased significantly and amounted to € 4,830 million (31 December 2015: € 5,595 million). Besides lower deposits held at other banks, the reason for the decrease was the reduction in securities repurchase agreements entered into as part of liquidity management. The significant decrease in the cash reserve from € 3,394 million as at 31 December 2015 to € 1,766 million as at 31 March 2016 is also attributable to active liquidity management. Loans and advances to customers amounting to € 54,371 million (31 December 2015: € 56,575 million) were lower than at the previous year-end. 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 client divisions. Total loan loss provisions (after compensation effect) decreased in the first quarter of 2016 to € -982 million (31 December 2015: € -1,065 million). Even excluding the compensation effect, total loan loss provisions decreased slightly to € -7,841 million (31 December 2015: € -8,227 million).

On the other hand, trading assets increased to € 8,133 million (31 December 2015: € 7,356 million). This is solely attributable to the increase in the positive market values of derivatives, while securities positions decreased. Financial investments only decreased slightly to € 16,494 million (31 December 2015: € 16,636 million). This was due mainly to a slight decrease in securities portfolios. Equity holdings were also reduced in line with the plan.

On the liabilities side, liabilities to banks in particular decreased to € 10,975 million (31 December 2015: € 14,398 million). The lower refinancing volume required as a result of the reduction in total assets was reflected in particular in the decrease in liabilities to central banks. Liabilities to customers remained relatively constant and amounted to € 44,479 million (31 December 2015: € 44,567 million). Securitised liabilities amounted to € 17,623 million (31 December 2015: € 18,616 million). This was attributable to a higher volume of maturities than new issues. Trading liabilities comprising negative market values of derivatives increased to € 7,312 million (31 December 2015: € 6,758 million). Subordinated capital remained constant compared to the previous yearend.

Equity decreased to € 4,739 million (31 December 2015: € 4,885 million). The main influencing factors were charges recognised in OCI (other comprehensive income) and the net loss for the first quarter.

Business volume decreased to € 100,972 million (31 December 2015: € 106,176 million). Off-balance sheet business also decreased in addition to the reduction in total assets: sureties and guarantees amounted to € 2,479 million (31 December 2015: € 2,833 million), irrevocable loan commitments to € 5,647 million (31 December 2015: € 6,370 million).

Adequate capital ratios as at 31 March 2016

<table>
<thead>
<tr>
<th>REGULATORY CAPITAL RATIOS</th>
<th>31.03.2016</th>
<th>31.12.2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total capital ratio</td>
<td>20.2</td>
<td>20.6</td>
</tr>
<tr>
<td>Tier 1 capital ratio</td>
<td>15.6</td>
<td>16.4</td>
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<tr>
<td>CET1 ratio</td>
<td>12.0</td>
<td>12.3</td>
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<tr>
<td>CET1 ratio (full implementation of Basel III)</td>
<td>11.3</td>
<td>11.6</td>
</tr>
<tr>
<td>Leverage ratio</td>
<td>6.3</td>
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<table>
<thead>
<tr>
<th>ELIGIBLE CAPITAL</th>
<th>SAME PERIOD</th>
<th>31.03.2016</th>
<th>31.12.2015</th>
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<tr>
<td>Regulatory capital</td>
<td>7.4</td>
<td>7.7</td>
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</tr>
<tr>
<td>of which: Tier 1 capital</td>
<td>5.7</td>
<td>6.1</td>
<td></td>
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<tr>
<td>of which: CET1 capital</td>
<td>4.4</td>
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<tr>
<td>of which: additional Tier 1 capital</td>
<td>1.3</td>
<td>1.5</td>
<td></td>
</tr>
<tr>
<td>of which: supplementary capital</td>
<td>1.7</td>
<td>1.6</td>
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<tr>
<td>Risk assets (RWA)</td>
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<td>37.4</td>
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<tr>
<td>of which: risk assets counterparty default risk</td>
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<td>26.8</td>
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<tr>
<td>Leverage exposure</td>
<td>91.5</td>
<td>97.6</td>
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</table>

CET1 ratio decreases to 12.0% due to Basel III phase-in effects and Q1 loss
The core Tier 1 ratio (CET1 ratio under the Basel III transitional arrangements, phase-in) decreased to 12.0% as at 31 March 2016 and was therefore still at an adequate level. The change compared to 31 December 2015 (12.3%) includes higher deductions from equity under the Basel III phase-in rules and the quarterly loss as well as charges recognised in OCI (other comprehensive income).
Under the assumption of full implementation of the Basel III rules (fully loaded), HSH Nordbank’s CET1 capital ratio decreased to 11.3% compared to 11.6% as at 31 December 2015.

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

RWA have decreased compared to 31 December 2015 by € -0.6 billion to € 36.8 billion and are in line with the plan. The reduction in RWA is attributable mainly to the appreciation of the US dollar (EUR/USD 1.14 as at 31 March 2016 versus EUR/USD 1.09 as at 31 December 2015). The trend of HSH Nordbank’s key risk parameters was largely stable over the past quarter.

The regulatory minimum risk weight of 20% is applied to the senior tranche of the second loss guarantee. Around 0.3% has been calculated as the risk weight as at 31 March 2016 (31 December 2015: 0.3%). This results again in an additional guarantee buffer as at 31 March 2016, which means 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 is below 20%.

HSH Nordbank’s leverage ratio was a very solid 6.3% as at 31 March 2016 (31 December 2015: 6.3%). A statutory binding minimum leverage ratio has not yet been defined.

Detailed information regarding the capital and RWA forecast is set out in the Forecast, opportunities and risks report in the 2015 Group Management Report.

Funding activities expanded

HSH Nordbank has successfully continued to drive its funding strategy forward in the first quarter of 2016 by using different sources of funding.

Retail funding performed well in the challenging low interest environment. The raising of funding including placements to institutional investors was above plan in the first quarter of 2016.

The issuance of secured debt instruments continued to be a core focus of the Bank’s refinancing mix. In February, the Bank issued a public sector Pfandbrief of € 500 million and thereby successfully continued its strategy to be regularly active in the market with liquid issues and to expand the investor base.

Asset-based funding (ABF) also remains an important refinancing instrument for the Bank. A further large volume transaction was concluded in the first quarter of 2016 via the ABF platform. Long-term borrowings of $ 215 million were raised on the basis of infrastructure loans and strengthen the primary US dollar refinancing base. Further transactions are in the pipeline.

Besides the issuing activities, the level of deposits also contributed to the implementation of the funding strategy. Total deposits amounted to € 34 billion as at 31 March 2016 (31 December 2015: € 35 billion). Furthermore, at the end of the first quarter of 2016, the Bank held liquidity reserves in the form of credit balances at central banks in the total amount of around € 1.4 billion and collateral eligible for refinancing at central banks in the amount of € 13.5 billion, which the Bank can access at any time.

The intended sales of portfolios of € 5 billion to the federal states in the middle of 2016 and up to a total of € 3.2 billion in the market will further strengthen the good liquidity situation.

The regulatory requirements regarding HSH Nordbank’s liquidity ratios were met in the reporting period. The liquidity ratio as defined in the German Liquidity Regulation (LiqV) declined as at 31 March 2016 to 1.67 (31 December 2015: 1.89). It was therefore still within plan and significantly above the regulatory minimum requirements. The liquidity coverage ratio (LCR, short-term minimum liquidity ratio) was 121% as at 31 March 2016 (31 December 2015: 112%) and was also significantly above the minimum requirements.

Due to the postponement of the publication of the single entity financial statements and Group financial statements as at 31 December 2015, the Bank suspended its issuing activities for a short period of time in the first quarter of 2016 from the date of the ad hoc announcement regarding this (3 March 2016). This also resulted in the temporary increase in return flows from deposits and issues. The resulting effects were accordingly taken into account in the funding plan.
The rating agencies have already implemented new liability cascade rules a year before the introduction of the amended Section 46f of the German Banking Act (KWG) to be applied from 2017 onwards. At the end of January 2016 Moody's carried out a rating action against this backdrop that, for German banks, generally improved deposit ratings and downgraded the senior unsecured ratings especially relevant for refinancing on the capital markets for some banks due to the subordination of senior bonds (financial instruments classified as senior unsecured) to deposits provided for under these rules. Moody's confirmed both HSH Nordbank's deposit rating and senior unsecured rating at the current level of Baa3. HSH Nordbank's subordinated bonds were downgraded by a notch from B1 to B2 in January 2016, due to the high level of maturities of these bonds in 2015.

Detailed information regarding the funding forecast is set out in the Forecast, opportunities and risks report in the 2015 Group Management Report.

SEGMENT RESULTS

SEGMENT OVERVIEW JANUARY TO MARCH 2016

<table>
<thead>
<tr>
<th>[€ m]</th>
<th>Shipping, Project &amp; Real Estate Financing</th>
<th>Corporates &amp; Markets</th>
<th>Corporate Center</th>
<th>Consolidation Core Bank</th>
<th>Total Core Bank</th>
<th>Restructuring Unit</th>
<th>Consolidation Restructuring Unit</th>
<th>Total Restructuring Unit</th>
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<tr>
<td>Total income</td>
<td>2016</td>
<td>85</td>
<td>71</td>
<td>34</td>
<td>84</td>
<td>274</td>
<td>-14</td>
<td>12</td>
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<tr>
<td></td>
<td>2015</td>
<td>150</td>
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<td>-65</td>
<td>188</td>
<td>99</td>
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<td>Loan loss provisions (including credit derivative)</td>
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<td>24</td>
<td>-3</td>
<td>12</td>
<td>-18</td>
<td>-37</td>
<td>16</td>
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<tr>
<td></td>
<td>2015</td>
<td>-84</td>
<td>4</td>
<td>41</td>
<td>151</td>
<td>112</td>
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<td>Administrative expenses</td>
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<td>-34</td>
<td>-66</td>
<td>-9</td>
<td>-2</td>
<td>-111</td>
<td>-35</td>
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<td></td>
<td>2015</td>
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<td>5</td>
<td>13</td>
<td>-106</td>
<td>-56</td>
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<tr>
<td>Net income before taxes</td>
<td>2016</td>
<td>0</td>
<td>31</td>
<td>24</td>
<td>13</td>
<td>68</td>
<td>-78</td>
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<tr>
<td></td>
<td>2015</td>
<td>28</td>
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<td>32</td>
<td>25</td>
<td>109</td>
<td>34</td>
<td>91</td>
</tr>
<tr>
<td>Segment assets (€ bn)</td>
<td>31.3</td>
<td>2016</td>
<td>23</td>
<td>24</td>
<td>17</td>
<td>4</td>
<td>68</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>31.12. 2015</td>
<td>24</td>
<td>26</td>
<td>17</td>
<td>3</td>
<td>70</td>
<td>22</td>
<td>5</td>
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</tbody>
</table>

1) Including hedging effect of credit derivative

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

The Core Bank, in which HSH Nordbank combines its strategic divisions, made progress in implementing its client- and sector-based strategy despite the partly very challenging environment, and was therefore able to consolidate its position in the target markets.

The Core Bank generated above plan net income before taxes of € 68 million for the first three months of 2016 (same period in the previous year: € 109 million). The overall satisfactory operating performance of the segments, with the exception of the Shipping division, contributed to this. This gives a return on equity for the Core Bank of 12% (previous year: 21%). The cost-income ratio of the Core Bank was 40% (previous year: 60%).

In addition to the new business concluded in a highly competitive environment, measurement effects recognised in net trading income as well as net commission income are also reflected in total income, which increased from € 188 million to € 274 million for the first quarter of 2016 and was significantly above plan and the amount for the same period in the previous year. The net result was adversely impacted by the continued reduction in the interest-bearing volume of loans and advances due to scheduled and early loan principal repayment made by clients and the ongoing restructuring activities in the shipping lending business. The net result was also adversely impacted by the recognition of significantly higher loan loss provision expense of € -18 million than that for the same period in the previous year (€ 112 million) after taking account of the compensating effects of the guarantee and the hedging effect of the credit derivative (as a component of the second loss guarantee) as a result of the elimination
of income from the debt waiver recorded in the same period in the previous year and disclosed under loan loss provision expense. Net income was also adversely impacted by the annual contributions for the European bank levy and deposit guarantee fund.

Total assets of the Core Bank amounted to € 68 billion as at 31 March 2016 (31 December 2015: € 70 billion) against the backdrop of the business performance and movement in the US/EUR exchange rate (portfolio effect: € -0.5 billion). The increase attributable to new business was offset by scheduled and unscheduled loan principal repayments.

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

**Segment results of the Core Bank**

**Earnings trend in the Shipping, Project and Real Estate Financing segment adversely impacted by Shipping division results**

Net income before taxes of € 0 million for the Shipping, Project & Real Estate Financing segment (same period in the previous year: € 28 million) reflects, on the one hand, a good above-plan result of the Real Estate division. On the other hand, the reduction in the interest-bearing volume of loans and advances and the ongoing need for restructuring in the shipping loan (legacy portfolio) recovery unit assigned to the Core Bank continued to have a substantial negative impact on the net income of this segment.

Net income before taxes for the Shipping division decreased to € -38 million compared to € -4 million for the same period in the previous year, due to the reduction in total income and continued high level of loan loss provision expense. The persistent difficult market conditions in the shipping markets resulted in a lower, and also expected, new business volume of € 0.2 billion for the first quarter of 2016 (same period in the previous year: € 0.5 billion). The focus was on a further diversification of the portfolio through domestic and international commitments with counterparties of good credit standing.

The Real Estate Clients division made the largest contribution to earnings and net income with € 36 million compared to € 30 million in the same period in the previous year. The main driver of this success was new business, which also continues to develop positively in 2016. Selective new business of € 0.9 billion was generated in the first quarter of 2016 on a targeted basis and in line with the plan. The Real Estate Clients division benefited from its very good market position. The division was able to maintain its strong market position in the core region of northern Germany and further increase new business in the metropolitan regions in western Germany. Transactions concluded with new clients and international institutional investors in particular accounted for a large part of this positive trend.

The Corporate Finance 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 a higher overall contribution to earnings than in the same period in the previous year. The Corporate Finance results are assigned for the most part to the client divisions under the bank management policy.

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

Net income before taxes for the Corporates & Markets segment was at a satisfactory level and increased to € 31 million as at 31 March 2016 compared to € 24 million for the same period in the previous year. This is attributable primarily to the good risk situation in the segment's loan portfolio as at the reporting date, which allowed releases of loan loss provisions to be recognised.

The Corporate Clients division generated net income of € 46 million for the first three months, which is unchanged from the same period in the previous year (€ 46 million). In addition to the contribution made by operating earnings, this includes net releases of loan loss provisions, which are attributable to the solid business situation of many corporate clients. As expected, the first quarter of 2016 was quieter following lively business at the 2015 year-end. Total new business of € 685 million was concluded (same period in the previous year: € 621 million). The business performance of the Corporate Clients division continued to be characterised by a highly competitive environment, low level of market interest rates and restrained demand for financing on the part of corporates. However, new lending business remained at the level for the same period in the previous year but fell short of the Bank's plan, while adhering to strict risk and income requirements. The cross-selling contribution made by the Corporate Clients division again increased slightly. This was attributable mainly to commission income from lending business in the Project Financing division.

Competition is still intense in the Logistics & Infrastructure business field. New business of € 237 million was concluded in this area in the first quarter of 2016 due to the very good market penetration. As was the case in the past year, project financing transactions were mainly concluded in the railway vehicle sector.

The Energy & Utilities business field generated new business of € 256 million with the successful completion of projects. The focus was on structured project financing transactions in the wind energy sector (onshore projects) and photovoltaic parks in Scandinavia, as well as on corporate client business in Germany.

The overall restrained loan demand in business conducted with medium-sized companies is reflected in the continuing competition and is putting pressure on transactions and margins. The Trade business field was able to increase business against this trend with clients in the commodity sector and textile industry, resulting in an increase
in sales of cross-selling products compared to the same period in the
previous year. Financing transactions were concluded throughout
Germany with newly acquired, well-known customers in the food
industry with the focus on food trading and production. Together, the
Trade and Food Industry business fields were able to secure new
business totalling € 102 million.

In the Industry & Services and Health Care business fields the Bank
was able to successfully conclude transactions with existing and new
customers in the first three months of this year through its expertise
in the area of structured financing (capital structuring). The expan-
sion of the client base in all locations in Germany is the focus for 2016.
The excellent sector know-how of the corporate client relationship
managers and M&A specialists will be used to give impetus to financ-
ing and advisory solutions and provide individual solutions,
particularly for global trade finance, payment transactions and
currency/interest rate hedging.

In the first three months of this year the impact of the zero interest
rate policy on client portfolios was the focus of business conducted
with Wealth Management clients. Adjustments to the asset allocation
and changes in maturities for money market and financial inves-
tments were the main influencing factors. As a result, the Wealth
Management business field continued to contribute to the success of
the Corporate Clients division.

Net income of the Capital Markets division improved to € -15 million
(same period in the previous year: € -22 million) despite a volatile and
risk-averse market environment together with continued subdued
client demand. The sale of risk management products was in line with
the sector trend, but slightly below the level of the same period in the
previous year, and had a negative effect on the capital markets operat-
ing business. However, the trend of the customer deposit business
with savings banks and institutional investors was positive compared
to the previous year. Administrative expenses for the Capital Markets
division benefited from the cost-reduction programme and lower cost
allocation.

Corporate Center segment
Net income before taxes for the Corporate Center segment, which
includes the overall bank positions and administration and service
divisions including Transaction Banking, amounted to € 24 million
compared to € 32 million for the same period in the previous year.

Net income for the Core Bank takes consolidation
effects into account
Net income before taxes of € 13 million is disclosed in the Core Bank
consolidation column (same period in the previous year: € 25 mil-
lion). Loan loss provision income of € 12 million contributed to this
(same period in the previous year: € 151 million). In principle, the
compensation effect of the second loss guarantee, the result of the
currency translation of loan loss provisions assigned to consolidation
and the hedging effect of the credit derivative are disclosed in the
consolidation line item. Furthermore, measurement effects recognised
in net trading income had a positive impact on net income before
taxes. The line items – Result from restructuring, Expenses for bank
levy and deposit guarantee fund and Expenses for government guar-
antees – that are not assigned to the operating business had a negative
impact.

Negative net result of the Restructuring Unit
attributable to portfolio reduction
The Restructuring Unit generated net income before taxes of
€ -78 million at the segment level for the first three months of 2016
(same period in the previous year: € 34 million). The decrease in
earnings is attributable mainly to the continued reduction in the portfo-
ilio, which resulted in a further reduction in the interest-bearing
volume of loans and advances and the resulting sharp decrease in net
interest income. Net income was also negatively impacted by meas-
urement effects relating to client derivatives. Net trading income had
made a positive overall contribution to the Restructuring Unit’s net
income in the previous year. On the other hand, net income from
financial investments had a positive impact due to realised gains
arising on the sale of securities. Higher loan loss provision expense for
shipping loans continued to have a negative effect, which was, how-
ever, partially offset by the release of loan loss provisions for interna-
tional real estate client and corporate loans.

Overall, the Restructuring Unit disclosed a markedly lower net loan
loss provision expense of € -37 million than the pro rata plan before
taking account of the compensation effect of the guarantee as at
31 March 2016 (same period in the previous year: € -34 million).

Loan loss provisions continued to be largely compensated for by the
guarantee in the first three months. Gross compensation for the guar-
anteed portfolio amounted to € 34 million after taking currency trans-
lation gains and losses into account. The relief provided in the same
period in the previous year amounted to € 124 million because of the
favourable debt waiver.

After taking the compensating effects under the guarantee into
account, the loan loss provision expense disclosed amounted to
€ -3 million (same period in previous year: € 90 million). Taking
account of the hedging effect of the credit derivative (as a component
of the second loss guarantee) this results in a total expense of
€ -21 million compared to income of € 90 million in the same period
in the previous year.

Including the consolidation effects, net income before taxes of the
Restructuring Unit amounted in total to € -104 million (same period
in the previous year: € 125 million). Besides the decrease in total
income and charges recognised in net trading income and lower gains
on disposals, the significant reduction compared to the same period in
the previous year is attributable mainly to the lower relief provided by
the compensation compared to the first three months of the previous
year. In the previous year, net income also benefited from the debt waiver of the guarantors.

Total assets of the Restructuring Unit decreased to € 25 billion as at 31 March 2016 (31 December 2015: € 27 billion) as a result of the portfolio reduction taking into account the movement in the US dollar exchange rate (portfolio effect: € -0.3 billion). Consolidation items account for € 5 billion of this (31 December 2015: € 5 billion). Total assets of the Restructuring Unit segment therefore amounted to € 20 billion (31 December 2015: € 22 billion).
OUTLOOK

The following section should be read in conjunction with the other sections in this Financial Information and the 2015 Group Management Report of HSH Nordbank. 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 control. Therefore, actual events may differ considerably from the forward-looking statements stated below.

2016 dominated by the implementation of the agreed structural measures – net income for the year expected

The individual planned structural measures provided for under the EU agreement will continue to be progressed vigorously over the coming months, so that they can be implemented as planned after the final conclusion of the current EU proceedings that has in the meantime been reached. These mainly include the planned portfolio transactions, especially the planned transfer of €5 billion to the federal owners by the middle of 2016 and the formation of the holding company as part of the legal separation of HSH Nordbank AG. The foundation for a sustainable business model is to be laid by the associated gradual improvement in the Bank’s risk and financial situation. At the same time, the further expansion of new client business, continued winding down of high-risk portfolios and significant progress made at the cost and process level should contribute to a successful privatisation process, preparations for which are to be intensified over the coming months.

Notwithstanding the implementation of the formal decision, the Bank will vigorously drive forward its operating activities over the coming months. The additional stability and planning certainty gained for clients as a result of the EU agreement will be used in the market in the months to come, to further expand client business.

In the second quarter, the focus will be placed on the transfer of the federal state portfolio of €5 billion and accelerated reduction of legacy assets, in order to further reduce, inter alia, the impact of the US dollar on liquidity and funding. This measure underlines HSH Nordbank’s 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 regard over the course of the previous 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 possible sharper reduction in risk), volatility in the financial and currency markets (especially the US dollar), implementation of the formal decision of the EU Commission, changing assessments made by rating agencies as well as the further development of requirements of the European Banking Authority.

The 2016 Group financial statements will be shaped in all likelihood by the accounting effects of the implementation of planned portfolio transactions and the agreed relief from guarantee fees. Furthermore, the Bank considers that the statements and earnings forecasts made in the single entity and Group financial statements for the 2015 financial year are still valid. Against this backdrop, HSH Nordbank expects, on the basis of its planning, that positive net income before taxes will be generated for the first six months of the year and the whole of 2016.

Supported by the formal decision of the EU Commission, HSH Nordbank is generally confident that the operating business activities and planned restructuring can be successfully taken forward over the coming months. In this way, the basis for a sustainable realignment of the Bank is created, which convinces not least the customers, employees and investors of the validity of the business model of HSH Nordbank’s operating company and enables the privatisation process to be successfully concluded in the medium term.

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 reached 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 sales price in an open, non-discriminatory, competitive and transparent process not involving state aid by 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 at a positive price that do not require state aid 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. Measures must be taken to strengthen the liquidity situation in the event of significant unexpected outflows of funds (e.g. in the above-described scenario).

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 the expected recovery in the shipping markets occurs.

Further details on expectations for the current year and significant risks and opportunities are set out in HSH Nordbank’s detailed 2015 Group Management Report.
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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This is an English translation of the original German version of the Financial Information.

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.