

**BANKING THAT
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KEY FIGURES

INCOME STATEMENT

(€ m)	January - March 2017	January - March 2016
Net income before restructuring and privatisation	185	40
Net income before taxes	128	-36
Group net result	104	-44

BALANCE SHEET

(€ bn)	31.3.2017	31.12.2016
Equity	5.1	5.0
Total assets	85.3	84.4
Business volume	94.0	93.2

CAPITAL RATIOS¹⁾ & LEVERAGE RATIO

(%)	31.3.2017	31.12.2016
CET1 ratio	14.9	14.1
Tier 1 capital ratio	18.9	18.7
Regulatory capital ratio	26.1	24.8
Leverage ratio	6.5	7.0

EMPLOYEES

(computed on a full-time equivalent basis)

	31.3.2017	31.12.2016
Total	2,083	2,164
Germany	1,988	2,068
Abroad	95	96

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 precisely to the totals shown and percentages may not precisely reflect the absolute figures.

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AS AT 31 MARCH 2017**

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Note:

This Financial Information of the HSH Nordbank Group as at 31 March 2017 is released voluntarily and does not comply with all the accounting requirements applicable to interim reporting for capital-market-oriented companies. Recognition and measurement rules were applied on the basis of the IFRS.

HSH NORDBANK AT A GLANCE

AS AT 31 MARCH 2017

INCOME STATEMENT

(€ m)	January – March 2017	January – March 2016	Change in %
Interest income	954	898	6
Negative interest on investments and derivatives	-73	-32	> 100
Interest expense	-636	-707	-10
Positive interest on borrowings and derivatives	72	26	> 100
Net income from hybrid financial instruments	-27	-33	18
Net interest income	290	152	91
Net commission income	18	25	-28
Result from hedging	-6	1	> -100
Net trading income	87	33	> 100
Net income from financial investments	5	61	-92
Net income from financial investments accounted for under the equity method	1	-	> 100
Total income	395	272	45
Loan loss provisions in the lending business	-99	-73	36
Hedging effect of credit derivative under the second loss guarantee	43	34	26
Administrative expenses	-136	-144	-6
Other operating income	27	13	> 100
Expenses for bank levy and deposit guarantee fund	-45	-62	-27
Net income before restructuring and privatisation	185	40	> 100
Net income from restructuring and privatisation	-16	-14	-14
Expenses for government guarantees	-41	-62	-34
Net income before taxes	128	-36	> 100
Income tax expenses	-24	-8	> 100
Group net result	104	-44	> 100
Group net result attributable to non-controlling interests	-	-	-
Group net result attributable to HSH Nordbank shareholders	104	-44	> 100

BALANCE SHEET
ASSETS

(€ m)	31.3.2017	31.12.2016	Change in %
Cash reserve	7,517	3,491	> 100
Loans and advances to banks	3,620	4,192	-14
Loans and advances to customers	49,682	50,910	-2
Loan loss provisions	779	1,142	-32
Credit derivative under the second loss guarantee	244	199	23
Positive fair value of hedging derivatives	685	508	35
Positive adjustment item from portfolio fair value hedges	340	403	-16
Trading assets	4,626	5,433	-15
Financial investments	15,725	15,493	1
Financial investments accounted for under the equity method	12	13	-8
Intangible assets	13	14	-7
Property, plant and equipment	235	236	-0
Investment property	12	12	-
Non-current assets held for sale and disposal groups	917	1,382	-34
Current tax assets	54	65	-17
Deferred tax assets	730	767	-5
Other assets	106	105	1
Total assets	85,297	84,365	1

LIABILITIES

(€ m)	31.3.2017	31.12.2016	Change in %
Liabilities to banks	10,399	9,501	9
Liabilities to customers	42,449	40,172	6
Securitised liabilities	16,111	16,624	-3
Negative fair values of hedging derivatives	256	290	-12
Negative adjustment item from portfolio fair value hedges	699	786	-11
Trading liabilities	5,213	5,981	-
Provisions	1,452	1,521	-5
Liabilities relating to disposal groups	66	65	2
Current tax liabilities	58	87	-33
Deferred tax liabilities	7	7	100
Other liabilities	898	845	6
Subordinated capital	2,610	3,536	-26
Equity	5,079	4,950	3
Share capital	3,018	3,018	-
Capital reserve	75	75	-
Retained earnings	1,692	1,617	5
Revaluation reserve	150	127	18
Currency conversion reserve	54	60	-10
Group net result	104	67	55
Total before non-controlling interests	5,093	4,964	3
Non-controlling interests	-14	-14	-
Total equity and liabilities	85,297	84,365	1

BUSINESS DEVELOPMENTS AS AT 31 MARCH 2017

OVERVIEW OF BUSINESS PERFORMANCE

Solid start to the year in line with expectations

The performance in the first quarter of 2017 was in line with the plan and, with this overall pleasing start to the important year of 2017, the Bank is making a contribution to a successful change in ownership within the means at its disposal. Following the EU decision of 2 May 2016 regarding the replenishment of the second loss guarantee issued by the federal states and the significant structural measures already implemented in the past financial year the focus in 2017 is on the upcoming change in ownership.

The key topics to point out in this regard are the following:

- **Privatisation:** the Bank has strongly supported its owners in the privatisation process and the first phase, which ended on 31 March 2017 with the submission of indicative bids by interested investors, was concluded positively.
- **Core Bank:** new business activities are progressing as expected and were actively driven forward. The main emphasis was on acquiring new business with appropriate income and risk profiles and the focus on the corporate client and real estate sectors.
- **Wind-down portfolio:** restructuring activities in the Shipping division were consistently accelerated within the narrow limits set by the second loss guarantee of the federal states. The high NPE ratio caused by legacy assets decreased as expected from 17.5% to 16.5% – not least because of the systematic winding down of the portfolio.
- **Cost programme:** planned potential for cost savings has been leveraged as anticipated, CIR is 32.2%.
- **Capital and liquidity:** key management indicators for capital and liquidity are still at a high level. CET1 ratio is 14.9% and LCR 203%.

Overall, the Bank reported good results for the first three months of the 2017 financial year, which were characterised by satisfactory operating developments in the Core Bank, the recognition of unrealised gains and structurally related charges in the Non-Core Bank, in a sometimes very challenging environment.

Rigorous implementation of EU measures

Following the EU decision, the Bank immediately started preparing and implementing the structural measures. In this connection, a portfolio of non-performing shipping loans of € 5 billion had already been sold to the federal state-owned hsh portfoliomanagement AöR as at 30 June 2016, under which the Bank was relieved of a part of the legacy loans in the Shipping division, which were entered into as part of the significant business expansion in the years up to 2009. Nevertheless, the Bank still has a very large portfolio of legacy assets due to the complex settlement conditions under the guarantee agreement and the provision of only a low level of relief under the EU decision in relation to the total NPE volume, which makes the privatisation process more difficult and is continuing to be systematically wound down.

Furthermore, the holding structure was established in the second quarter of 2016 which provided the operating HSH Nordbank with considerable relief from guarantee fees.

The Bank also started making intensive preparations in the second half of 2016 for the planned portfolio sales in the market. The sale of non-performing loans of up to € 3.2 billion was approved as part of the implementation of the EU decision. In this regard, the Bank has selected suitable portfolios that are to be gradually sold in the market (market portfolio). By winding down the NPE portfolios the portfolio quality will be continuously improved and the Bank will be further relieved of high levels of legacy assets. The defined portfolio consists of the non-strategic portfolios – aviation, continental European commercial real estate (Scandinavia, the Netherlands, Germany), other international real estate and energy. Commitments were also selected from the shipping portfolio.

Around € 2.3 billion of the selected portfolio has so far been sold or repaid, of which € 1.64 billion was attributable to the first tranche of the market portfolio, which mainly included aircraft financing transactions and continental European commercial real estate loans. A further € 0.7 billion was achieved via further individual sales (energy financing transactions) and by principal repayments made on a large individual commitment in Great Britain.

Further details on the EU decision and its impact on HSH Nordbank are set out in the Group Management Report for the 2016 financial year, particularly in the “Forecast report including opportunities and risks” sub-section of the “Forecasts, opportunities and risks report” section.

Privatisation process has started

According to the list of conditions and commitments provided to the EU Commission by the Federal Republic of Germany, on which the EU decision is based, HSH Nordbank AG is to be sold by 28 February 2018. This divestment deadline is met with the signing of a sales agreement. The transfer in rem of the shares to a buyer (closing) may be made at a later date. Against the backdrop of this privatisation the Bank has been systematically implementing structural, organisational and personnel measures since the second half of 2016. All these measures contributed to the improvement in the Bank's financial and risk situation and form the basis for a sustainable structure and viable business model characterised by increasing capital ratios, good liquidity indicators and increased efficiency.

At the same time, the guarantee issued in favour of HSH Nordbank by the federal state owners, Hamburg and Schleswig-Holstein, in 2009 as an essential element of the recapitalisation required at that time is complex and makes the Bank's realignment and the privatisation process more difficult. However, from today's perspective, the improvements originally intended by the owners were, due to the existing capital structures, only partially suited to significantly reduce the high proportion of NPE. The second loss guarantee received at that time did not directly strengthen capital from a liquidity perspective, on the basis of which the necessary, accelerated winding down of non-performing loans could have been carried out. Instead, complex settlement conditions under the guarantee agreement mean that economically sound wind-down measures can only be taken to a limited extent. Furthermore, total guarantee premiums of € 3.2 billion paid to date to the guarantor have put considerable strain on the capital base available for the absorption of potential losses. From today's perspective and in retrospect, the recapitalisation of HSH Nordbank at the time of the financial crisis in the form of a second loss guarantee of € 10 billion has proved to be less advantageous from an economic point of view when compared to a strengthening of capital at that time that would have had an effect on liquidity.

The official part of the privatisation of HSH Nordbank started with the announcement of the sale by the federal state owners, which was published on 23 January 2017. The privatisation process progressed in line with expectations in the first quarter of 2017. Interested investors submitted indicative bids by 31 March 2017, which were then carefully reviewed by the federal state owners. The first phase of the privatisation process has therefore been positively concluded. HSH Nordbank is continuing to strongly support its owners in the sales process. Detailed sales documentation was prepared, data rooms extensively filled and preparations made for the bilateral discussions with all interested parties for the second due diligence phase, which started in April 2017.

Furthermore, organisational changes had already been initiated in the second half of 2016. These mainly included the reallocation of portfolios between the Core and Non-Core Bank as well as adjustments to the Group's reporting structures and thus the segment structure.

Further information on the portfolio reallocation and changes to the segment structure can be found in the "Segments" sub-section of the "Economic Report" section in HSH Nordbank's Group Management Report for the 2016 financial year.

Positive new business trend in highly competitive environment

In addition to the preparations for the privatisation process, the Bank vigorously drove forward its operating business in the first quarter of 2017 in line with the plan. The focus was on generating new business with appropriate income and risk profiles in a sustained challenging market environment. The Bank's new business performed well in the first three months of 2017 and is in line with expectations. It amounted to € 2.2 billion and substantially exceeded that for the same period in the previous year (€ 1.7 billion).

Broken down by segment, new business generated in the Real Estate division was markedly higher than in the same period in the previous year and the plan amount. New business generated in the Corporate Clients division also increased compared to the same period in the previous year. However, this trend is still marked by sustained intense competition. The targeted management of the risk profile in the shipping segment generally results in extremely selective new business being transacted in this sector.

The ratio of new loans disbursed to new business concluded (disbursement ratio) decreased slightly in the first quarter of 2017. Interest margins achieved in the highly competitive environment are stable, but are currently still below the ambition level. Cross-selling net income generated by various banking services over and above loan financing was at a satisfactory level in the first quarter of 2017 and was well above expectations. Above-plan loan commissions from restructuring activities, investment products and income from derivative business transacted with clients made a positive contribution to this.

Accelerated winding down of legacy portfolios

Following the sharp reduction in the previous financial year the legacy portfolios in the Non-Core Bank continued to be rigorously reduced in the first three months of 2017 within the framework of the restrictive guarantee conditions in line with the risks involved while minimising losses. Further market transactions were prepared in addition to the winding down of the portfolio through individual sales in order to achieve a gradual reduction in volume in the current financial year and reduce the NPE ratio in line with the plan.

The focus remains in particular on winding down the non-performing shipping financing transactions in a continuing very difficult market environment. In addition to the usual restructuring tools approaches such as structured solutions and portfolio transactions are being considered and developed as possible wind-down options. That said, there are the first signs of a recovery in key shipping markets. Charter rates increased significantly in the first quarter of 2017, particularly in the container and bulker segments, and activity picked up on the second-hand markets. However, it remains to be seen whether this develops into a sustained recovery that then has a positive impact on ship values and consequently on the Bank's earnings situation.

Stringent implementation of cost programme

The increasing pressure on earnings in the highly competitive banking market and increasing costs for regulatory requirements are being countered by the ongoing cost reduction programme. This is offset by substantial additional expenses incurred for advisory services, data rooms and audit activities incurred in the privatisation process.

The Bank made progress in the first quarter of 2017 in line with the plan in implementing measures for controllable operating expenses. The expected potential for cost savings based on the optimisation of the organisation and processes that has been implemented was realised accordingly. In addition, the reduction in legal fees, building costs and other personnel-related operating expenses particularly contributed to the targeted management of operating expenses. With regard to personnel expenses the planned reduction in headcount has already been contractually agreed for the most part with the employees.

Management system and defined management indicators of the IFRS Group

The Bank's integrated management system is aimed at the targeted management of key value drivers – income, efficiency/costs and profitability, risk, capital and liquidity. 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) and the relevant prudential rules, respectively.

Within the management reporting framework 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 compared to the same period in the previous year and, on the other, on their expected change over the remainder of 2017. In the 2016 reporting year, HSH Nordbank focused on the internal management system and refined it in accordance with the statutory requirements (SREP, BCBS 239). A focal point of this continuous development was the integrated view of the key financial and risk ratios in a standardised and holistic management reporting. This is used for the allocation and management of financial re-

sources by the Overall Bank Management Committee and to manage the business areas.

Further information on the management system and defined management indicators of the HSH Nordbank Group, Core Bank and Non-Core Bank as well as information on the expected trend for the whole of 2017 is set out in the "Management System" subsection in the "Basis of the Group" section and in the "Forecast, Opportunities and Risks Report" section in HSH Nordbank's Group Management Report for the 2016 financial year.

Core Bank results above expectations

The Core Bank, which, following the portfolio reallocation carried out in the second half of 2016, comprises the strategic portfolios of the Corporate Clients, Real Estate, Shipping and Treasury & Markets segments, generated net income before taxes of € 262 million that is significantly higher than that for the previous year (same period in the previous year: € 118 million).

These results were positively impacted by total income of € 378 million that exceeded that for the same period in the previous year by € 134 million (same period in the previous year: € 244 million). Increased net interest income, which reflects in particular the trend in interest income from operating activities and the planned effect of the recognition of unrealised gains through the sales of promissory note loans of € 174 million, contributed € 305 million to this. On the other hand, net trading income, which also includes earnings from the operating client business, management of liquidity and market risks as well as from the measurement of client derivatives and assets measured at fair value, made a significant contribution of € 52 million.

The good quality of the Core Bank portfolio with a low NPE ratio of 1.7% is the reason behind the low loan provision expense, which amounted in total to € – 11 million (same period in the previous year: € – 12 million). This expense was compensated for in the guaranteed portfolio by the guarantee up to its full balance sheet utilisation. After taking account of the compensation and including currency effects and the hedging effect of the credit derivative loan loss provision expense recognised in the Core Bank amounted to € – 5 million after the guarantee effect (same period in the previous year: € – 4 million).

The ongoing cost reduction programme was also implemented in the Core Bank in line with the plan. Administrative expenses amounted to € – 80 million and are therefore appreciably below the level for the same period in the previous year (€ – 86 million). The Core Bank results were adversely impacted by expenses for the bank levy and deposit guarantee fund as well as for government guarantees amounting to € – 33 million (same period in the previous year: € – 38 million). The Core Bank accounted for € – 5 million and therefore around 12% of the total guarantee expense, as the Core Bank portfolios hedged by the second loss guarantee only have a low capital commitment.

The segments Real Estate with € 34 million, Corporate Clients with € 25 million and Treasury & Markets with € 211 million made positive contributions to the overall good earnings performance. The Shipping segment recorded a net loss of € – 8 million. The results were adversely impacted by the low interest rate environment and intense competition in the traditional lending business, which had a negative effect on the new business margin trend in particular.

High loan loss provisions in the Non-Core Bank

As expected for structural reasons, the Non-Core Bank, in which non-performing loans earmarked for winding down are combined following the portfolio reallocation, disclosed a net loss of € – 101 million as at 31 March 2017 (same period in the previous year: € – 126 million). This net loss consists primarily of administrative expenses of € – 57 million (same period in the previous year: € – 47 million), in which unscheduled depreciation of € – 10 million is included. It also includes expenses of € – 36 million for the second loss guarantee (same period in the previous year: € – 57 million), as most of the risk coverage and therefore the attributable guarantee facility is accounted for by the Non-Core Bank. This loss is mainly attributable to the continued winding down of the portfolio and setting of loans to a non-accrual basis as part of the recognition of loan loss provisions. This resulted in a further reduction in loan volume and thereby a further decrease in net interest income. Total income of the Non-Core Bank amounted to € 22 million (same period in the previous year: € 20 million), Net interest income of € – 13 million (same period in the previous year: € 19 million) and net trading income of € 27 million (same period in the previous year: € – 8 million) made a significant contribution to this.

Net income before taxes was also adversely impacted by high loan loss provision expense of € – 187 million (same period in the previous year: € – 53 million). This is mainly attributable to shipping loans in the legacy loan portfolio and a few individual cases in the energy wind-down portfolio and was compensated for in the guaranteed portfolio up to the full balance sheet utilisation of the guarantee. On the other hand, loan loss provisions recognised in the Non-Core Bank's real estate portfolio were reversed. After taking account of the compensation and including currency effects and the hedging effect of the credit derivative loan loss provision expense recognised in the Non-Core Bank amounted to € – 38 million after the guarantee effect (same period in the previous year: € – 35 million).

Overall satisfactory group performance

Group net income for the first quarter of 2017, which comprises the results of the Core Bank, Non-Core Bank as well as segments not subject to reporting requirements and reconciliation and consolidation effects, was satisfactory in overall terms. It was with € 128 million well above that for the same period in the previous year (€ – 36 million) and substantially exceeded expectations. Group net income after taxes amounted to € 104 million (same period in previous year: € – 44 million).

The Core Bank's strategic business divisions including the effects arising from the recognition of unrealised gains on the sale of promissory note loans of € 174 million made a very positive contribution to this result. The Bank was therefore successful in more than offsetting the considerable financial burdens in the Non-Core Bank, which stem from the legacy assets from years prior to 2009 and whose risks are shielded by the guarantee, as well as the high guarantee, restructuring and privatisation expenses.

A high level of loan loss provisions also had to be recognised in the first quarter of 2017 for shipping and energy loans, particularly in the Non-Core Bank's legacy loan portfolio, to take account of the continuing very difficult market conditions in the shipping industry, which are reflected in charter rates that still do not cover costs and in very low ship values. Loan loss provision expense including the hedging effect under the credit derivative (as a component of the second loss guarantee) amounted in total to € – 56 million (same period in the previous year: € – 39 million). Loan loss provisions recognised in the first quarter of 2017 were no longer fully compensated for due to the full balance sheet utilisation of the second loss guarantee as at 31 March 2017.

The cost-saving potential planned as part of the ongoing cost reduction programme was realised as expected. However, the savings realised were partly offset by unscheduled depreciation of € – 10 million relating to the market transactions. In addition, earnings were adversely impacted by increased restructuring and privatisation expenses of € – 16 million, (same period in the previous year: € – 14 million), which were mainly incurred for advisory services, data rooms and audit activities due to the planned personnel measures and as a result of the preparations made for the privatisation process.

The return on equity for the Group calculated on the basis of net income before taxes was 10.2%, which is appreciably above plan (31 December 2016: 2.5%). The cost income ratio was 32.2% (31 December 2016: 64.8%) and was therefore at a considerably better level compared to the plan.

The NPE ratio continued to decline moderately in line with the plan. It was 16.5% in the first quarter of 2017 compared to 17.5% as at 31 December 2016. In addition to the slight increase in total E&D, this trend is mainly attributable to the disposal of a sub-portfolio as part of the market sales executed by the Bank in the first quarter of 2017. The winding down of the portfolio expected over the coming months will result in a further reduction in the NPE ratio and reduce the overall still too high NPE ratio.

The portfolio of non-performing loans is directly related to the guarantee. Besides the difficult shipping markets, the complex settlement conditions under the guarantee agreement have had a detrimental effect on the rapid winding down of non-performing legacy loans. The coverage ratio improved in line with expectations to 49.2% (31 December 2016: 48.4%) and also reflected a solid coverage of the entire NPE portfolio in the first quarter of 2017. The coverage ratio was 58% in the shipping portfolio (31 December 2016: 60%).

The core Tier 1 capital ratio (CET 1 ratio) was 14.9% as at 31 March 2017 (31 December 2016: 14.1%) and once again reached a good level from the Bank's perspective. The CET 1 ratio is therefore significantly above the Bank's minimum ambition level of around 13% forecast for the 2017 year end. This increase was due to the quarterly results and the reduction in RWA. The liquidity ratios (survival period: 12 months, LCR 203% and NSFR 111%) exceeded the Bank's plan and were once again at a very good level.

Further details underlying the business performance are given below in the "Earnings, net assets and financial position" and "Segment results" sections.

KEY GROUP MANAGEMENT INDICATORS

	31.3.2017	31.12.2016
Net income before taxes (€ m)	128	121
CIR	32.2%	64.8%
RoE	10.2%	2.5%
NPE ratio	16.5%	17.5%
Coverage ratio	49.2%	48.4%
CET1 ratio	14.9%	14.1%
Survival period	12 months	10 months
LCR	203.0%	229.0%
NSFR	111.0%	111.0%

EARNINGS

Increase in total income

Total income increased significantly to € 395 million in the first quarter of 2017 compared to € 272 million in the same period in the previous year. The following developments in the individual income line items were relevant for this:

Net interest income of € 290 million (same period in the previous year: € 152 million) made a significant contribution to total income. On the one hand, the above plan interest income from operating activities and, on the other, the effects in line with the plan of the recognition of unrealised gains on the sale of promissory note loans of around € 174 million had an appreciable positive impact. A substantial portion of the sales of securities planned for the whole of 2017 has therefore already been executed in the first quarter of 2017. As expected, the interest-bearing volume was below that of the previous year due to developments in the Non-Core Bank.

Net commission income amounted to € 18 million as at 31 March 2017 compared to € 25 million in the same period in the previous year. This reduction was primarily due to the premium expense for the synthetic securitisation transaction executed in the fourth quarter of 2016, whereas cross-selling net income was positive in the first quarter of 2017 and significantly exceeded the pro rata plan.

Net trading income made a significant contribution of € 87 million to total income in the first three months of 2017 (same period in the previous year: € 33 million). Operating successes in the client business (€ 47 million including hedging effects), effects arising from derivatives measured at fair value (€ 27 million) and increases in value in the credit investment portfolio (€ 21 million) had a significant positive impact on the earnings performance. Net trading income of € –16 million was adversely impacted in particular by the measurement of EUR/USD basis swaps. In accordance with the list of conditions and commitments of the first EU decision of 20 September 2011, the Bank does not engage in proprietary trading.

Net income from financial investments was € 5 million. This amounted to € 61 million in the same period in the previous year and was mainly driven by the gains realised on the sale of securities of € 69 million.

Continuing high level of loan loss provisions

Loan loss provisions for the first three months of 2017 continued to be dominated by a high level of additions in the legacy loan portfolio hedged by the second loss guarantee. Additional loan loss provision expense was recognised for legacy portfolios in the shipping portfolio to take account of the very difficult market developments, which were reflected in even lower charter rates and ship values. Furthermore, loan loss provisions were recognised in the Non-Core Bank's energy portfolio, whereas the risk trend in the other segments remained insignificant. Overall, the corporate clients and real estate portfolios

were characterised by reversals of loan loss provisions based on loan principal repayments and improved risk assessments.

In total, loan loss provision expense amounted to € –198 million as at 31 March 2017 before taking account of the compensation effect of the guarantee (same period in the previous year: € –62 million). It therefore clearly exceeded that recognised in the same period in the previous year. The Bank had already recognised a large part of the loan loss provisions in the previous year in the Group financial statements as at 31 December 2015 as part of the implementation of the EU decision, whereby only a low level of loan loss provisions were recognised in the first quarter of 2016 which limits comparability with the previous year.

The additional loan loss provisions recognised in particular for legacy portfolios were no longer fully compensated for in the first quarter of 2017 due to the full balance sheet utilisation of the second loss guarantee as at 31 March 2017. The compensation was accounted for by the portfolios hedged under the guarantee. Total loan loss provisions amounted to € –56 million (same period in the previous year: € –39 million) after taking account of the hedging effect under the second loss guarantee of € 43 million (same period in the previous year: € 34 million) and including currency effects and after compensation under the second loss guarantee.

The hedging effect of the guarantee also gave rise for the first time to a cash drawdown of the guarantee in the past financial year due to the transfer of non-performing shipping loans of € 5 billion to the federal state owners. The Bank's first loss piece (€ 3.2 billion) was exceeded by € 2.9 billion at the reporting date. The second loss guarantee was fully utilised in balance sheet terms as at 31 March 2017 (31 December 2016: € 9.9 billion including guarantee payments of € 1.9 billion already received).

The actual payments made under the guarantee are offset by significant fees already paid for the guarantee. The premiums paid to the guarantors and recognised through profit or loss by HSH Nordbank amounted to € 3.2 billion as at the reporting date (including one-off payments of around € 0.3 billion made to HSH Beteiligungs Management GmbH). Furthermore, a further one-off payment of € 0.5 billion was made to the federal state owners in 2011, which was reintroduced into the Bank in the form of a mixed contribution of cash and in kind in 2012. The total payments made represent a significant burden for the Bank in the restructuring period.

Administrative expenses adversely impacted by special factors

Administrative expenses amounted to € –136 million as at 31 March 2017 (same period in the previous year: € –144 million). Savings realised in line with the plan under the ongoing cost reduction programme for controllable personnel and operating expenses were offset by unplanned special depreciation of € –10 million.

Personnel expenses, which decreased significantly from € –65 million to € –58 million, were impacted by the further decrease in the number of employees as part of the planned headcount reduction. Compared to the end of 2016, the number of employees within the Group declined by 81 to 2,083 (computed on a full-time equivalent (FTE) basis).

Operating expenses (excluding depreciation/amortisation) decreased to € –65 million compared to € –71 million in the same period in the previous year. Savings were mainly achieved by reducing building costs. 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 amounted to € –13 million (same period in the previous year: € –8 million). This increase was mainly attributable to unscheduled depreciation of € –10 million. This resulted from the revaluation of aircraft included in the consolidation that mainly relate to the market transaction.

Other earnings line items

Other operating income amounted to € 27 million (same period in the previous year: € 13 million) and mainly includes income from cost reimbursements and reversals of provisions.

The quarterly results were adversely impacted by the 2017 annual contributions of € –45 million for the bank levy and deposit guarantee fund (same period in the previous year: € –62 million).

High restructuring and privatisation expenses

Earnings were adversely impacted to a significant extent by restructuring and privatisation expenses of € –16 million (same period in the previous year: € –14 million) incurred in connection with the planned personnel measures and preparations for the privatisation process (including costs for advisory services, data rooms and audit activities).

Reduction in base premium expense

The base premium expense for the second loss guarantee amounted to € –41 million for the first three months of 2017 (same period in the previous year: € –62 million). The reduction in the base premium is attributable to the increase in the drawdown of the second loss guarantee. Under the EU decision the base premium was reduced from 4% to 2.2% and the calculation basis changed from 1 January 2016. The base premium is calculated on the undrawn, i.e. not drawn down via settled losses, portion of the guarantee and no longer on the total guarantee facility.

Overall satisfactory Group net income

After taking account of the operating performance and against the backdrop of the recognition of unrealised gains HSH Nordbank generated positive net income before taxes of € 128 million as at 31 March 2017, which was significantly above expectations (same period in the previous year: € –36 million) After deducting tax effects there remained Group net income of € 104 million (same period in the previous year: € –44 million).

The income taxes line item comprised current tax expense of € –0.1 million and deferred tax expense of € –24 million.

NET ASSETS AND FINANCIAL POSITION

Total assets constant compared to the previous year end

HSH Nordbank's total assets remained largely constant at € 85,297 million in the first quarter of 2017 (31 December 2016: € 84,365 million). The first tranche of the market portfolio was sold successfully in the first quarter. The sale of the real estate loans was closed on 3 March 2017 and the aircraft financing transactions on 5 April 2017. The reduction in the balance sheet with regard to the real estate loans is therefore reflected as at 31 March 2017 and will be visible with regard to the aircraft financing transactions as at 30 June 2017. Furthermore, the sale of energy financing transactions was signed on 12 May 2017. It is expected that this will also reduce the balance sheet as at 30 June 2017.

The cash reserve increased significantly from € 3,491 million as at 31 December 2016 to € 7,517 million as at the 31 March 2017 reporting date. Liquidity inflows relating mainly to individual sales of promissory note loans and active liquidity management contributed to this. Loans and advances to banks of € 3,620 million were significantly lower than as at the previous year end (31 December 2016: € 4,192 million). This was primarily due to lower demand deposits held at other banks. Loans and advances to customers decreased slightly to € 49,682 million (31 December 2016: € 50,910 million). The new business development in the Core Bank was satisfactory and largely offset the planned wind-down.

Loan loss provisions (after compensation effects) amounted to € 779 million (31 December 2016: € 1,142 million). The transfer of the portfolio to hsh portfoliomanagement AöR in the second quarter 2016 had resulted in a decrease in loan loss provisions before taking account of the compensation. At the same time the compensation item retained payment claims against the guarantor, HSH Finanzfonds AöR, for payment defaults. Following a significant overcompensation of loan loss provisions in the financial statements for the first six months of 2016, this effect was significantly lower in the first quarter of 2017. Excluding compensation, total loan loss provisions decreased slightly to € -6,704 million (31 December 2016: € -6,713 million). Trading assets decreased to € 4,626 million (31 December 2016: € 5,433 million). In addition to the securities positions the positive market value of derivatives in trading assets also decreased. Financial investments increased slightly to € 15,725 million (31 December 2016: € 15,493 million). This was primarily due to slight changes in valuations in the equity portfolio.

On the liabilities side, liabilities to banks increased slightly to € 10,399 million (31 December 2016: € 9,501 million). This was mainly caused by an increase in securities repurchase agreements. Liabilities to customers also recorded a slight increase to € 42,449 million (31 December 2016: € 40,172 million). Domestic fixed-term deposits from institutional clients increased in particular. Securitised liabilities of € 16,111 million were slightly lower than as at the previous year end

(31 December 2016: € 16,624 million). Trading liabilities consisting of negative market values of derivatives (€ 5,213 million, 31 December 2016: € 5,981 million) decreased in line with the positive market values of trading assets. Subordinated capital decreased significantly to € 2,610 million (31 December 2016: € 3,536 million) due to maturities of subordinated liabilities. Reported equity capital increased slightly to € 5,079 million (31 December 2016: € 4,950 million). A slightly improved revaluation reserve and lower charges relating to pension obligations contributed to this.

Business volume increased slightly to € 93,969 million (31 December 2016: € 93,208 million). Sureties and guarantees amounted to € 1,971 million (31 December 2016: € 2,189 million), irrevocable loan commitments increased slightly to € 6,701 million (31 December 2016: € 6,654 million).

Capital ratios at good level as at 31 March 2017

REGULATORY CAPITAL RATIOS

SAME PERIOD CALCULATION

(%)	31.3.2017	31.12.2016
Total capital ratio	26.1	24.8
Tier 1 capital ratio	18.9	18.7
CET1 ratio	14.9	14.1
CET1 ratio (full implementation of Basel III)	14.4	13.4
Leverage ratio	6.5	7.0

ELIGIBLE CAPITAL

SAME PERIOD CALCULATION

(€ bn)	31.3.2017	31.12.2016
Regulatory capital	7.1	7.1
thereof: Tier 1 capital	5.1	5.4
thereof: CET1 capital	4.0	4.0
thereof: additional Tier 1 capital	1.1	1.3
thereof: supplementary capital	1.9	1.7
Risk assets (RWA)	27.0	28.6
thereof: risk assets / counterparty default risk	23.8	23.4
Leverage exposure	78.9	77.0

CET1 ratio of 14.9% at good level

The core Tier 1 capital ratio (CET 1 ratio, under the Basel III transitional arrangements, phase-in) increased to 14.9% as at 31 March 2017 and is therefore, despite the charges arising on the phasing in of the Basel III transitional arrangements, well above the previous quarter and the forecast for the 2017 year end level (around 13%). The change compared to 31 December 2016 (14.1%) includes the positive quarterly results and reduction in RWA resulting in particular through the active management of market risk. RWA have decreased compared to 31 December 2016 by € 1.6 billion to € 27.0 billion.

There was no free regulatory guarantee buffer available as at 31 December 2016 nor as at 31 March 2017 (free capacity for expected and unexpected losses). A portion of the regulatory charge is accounted for by the creation of a virtual so-called “sub-senior tranche” as part of the regulatory recognition of the federal state guarantee. The senior tranche of the Sunrise guarantee is split into two (virtual) sub-tranches for this purpose. The first sub-tranche (“sub-senior tranche”) receives a risk weight of 1,250% and is deducted from regulatory capital. The deduction from capital (“sub-senior tranche”) amounted to approx. € 0.7 billion as at 31 March 2017 and has increased by approx. € 0.1 billion compared to 31 December 2016. The main reason for the increase were charges recognised in the Non-Core Bank’s shipping portfolio. The residual senior tranche, whose risk weight is currently around 26%, is to be backed by RWA. The RWA for the senior tranche decreased by € 0.1 billion to € 5.5 billion in the first quarter of 2017 as a result of the further active winding down of the legacy portfolio.

The capital ratios presented are based on the assessment of the Bank and supervisory authorities that the material transfer of risk for the second loss guarantee is allowed despite the increase in the regulatory utilisation.

Under the assumption of full implementation of the Basel III rules (fully loaded) HSH Nordbank’s CET1 ratio increased significantly to 14.4% compared to 31 December 2016 (13.4%).

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 capital ratio was adhered to in the first quarter of 2017. A CET1 capital ratio of 10.5% (phase-in) including a regulatory early warning threshold (Pillar 2 Guidance “P2G”) applies to HSH Nordbank since 1 January 2017. This is composed of the SREP minimum requirement of around 8.9% (Pillar 2 Requirement “P2R” including the combined capital buffer requirements) plus an early warning buffer of 1.6%. (Pillar 2 Guidance “P2G”).

HSH Nordbank’s leverage ratio was a very solid 6.5% as at 31 March 2017 (31 December 2016: 7.0%). The reduction reflects the increase in total assets in the first quarter of 2017 as well as the phasing in of the Basel III transitional arrangements regarding hybrid capital. A statutory binding minimum leverage ratio value has not yet been defined. With the revision of the CRR the leverage ratio based on Tier 1 capital is to be determined as a binding minimum requirement for all institutions, probably at 3%.

Detailed information on HSH Nordbank’s capital and RWA forecast is set out in the Group Management Report for the 2016 financial year, particularly in the “Forecast report including opportunities and risks” sub-section of the “Forecast, opportunities and risks report” section.

Funding activities again expanded

HSH Nordbank has successfully continued to drive its funding strategy forward as planned in the first quarter of 2017 by using different sources of funding. Retail funding performed well in the challenging low interest rate environment. The raising of funding was significantly above plan in the reporting period due to higher placements with institutional clients.

Besides the issuing activities, the level of deposits contributed to the implementation of the funding strategy. Total deposits amounted to € 31.2 billion as at 31 March 2017 (31 December 2016: € 29.7 billion). As at 31 March 2017 the Bank also held liquidity reserves in the form of credit balances at central banks in the total amount of around € 7.5 billion and collateral eligible for refinancing at central banks in the amount of € 9.9 billion, which the Bank can access at any time.

Regulatory requirements regarding liquidity ratios as well as the assumptions made by the Bank in the forecast were adhered to in the reporting period. The liquidity ratio as defined in the German Liquidity Regulation (LiqV) of 1.79 as at 31 March 2017 (31 December 2016: 1.92) remained significantly above the minimum regulatory requirements. The liquidity coverage ratio (LCR, short-term minimum liquidity ratio) reached a very good level of 203% as at 31 March 2017 (31 December 2016: 229%) and was therefore clearly above the minimum requirements. The NSFR (structural liquidity ratio) of 111% as at 31 March 2017 (31 December 2016: 111%) was in the upper range of the requirements stipulated in the EU’s list of conditions and commitments.

The liquidity development report showed a minimum survival period of more than twelve months in the combined stress scenario as at 31 March 2017 (31 December 2016: ten months). The regulatory requirement of one month was therefore clearly exceeded.

HSH Nordbank expects that the trend of the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) will be stable over the remainder of the year and that the corridor of 80% to 120% provided for in the list of conditions and commitments will therefore be complied with. HSH Nordbank also expects that all other supervisory requirements such as the survival period in the liquidity development report for the combined stress scenario will continue to be complied with and the key ratios will remain more or less at the currently high level.

EARLY APPLICATION OF THE IFRS 9 CHANGE IN DISCLOSURE

IFRS 9 is to be applied for the first time, as a mandatory requirement, in financial years beginning on or after 1 January 2018. Early application is permitted. HSH Nordbank will be applying IFRS 9 as of 1 January 2018. IFRS 9 does, however, permit the isolated early application of the disclosure requirements for liabilities designated at fair value through profit or loss prior to the mandatory date for the initial adoption of the Standard. HSH Nordbank has exercised this option and, from 1 January 2017, discloses credit-risk induced changes in fair value of own liabilities, for which the fair value option has been exercised, directly in equity in other comprehensive income (OCI), i.e. not through profit or loss.

Against this backdrop, an amount of € 13 million was transferred within equity from retained earnings to the Reserve of effects from changes in the credit risk of liabilities designated at Fair value (sub-line item of the revaluation reserve) at the beginning of the reporting period. This amount represents the cumulative earnings contributions from the credit risk induced valuation of own liabilities designated at fair value, which in the past have been recognised through profit or loss. In the reporting period, other comprehensive income of € 6 million was recognised in the Reserve of effects from changes in the credit risk of liabilities designated at Fair value (sub-line item of the revaluation reserve) due to the early application of the change in disclosure.

SEGMENT RESULTS

SEGMENT OVERVIEW JANUARY TO MARCH 2017¹⁾

(€ m)		Corporate Clients	Real Estate	Shipping	Treasury & Markets	Core Bank ³⁾	Non-Core Bank	Other and Consolidation ^{4,5)}	Group
Total income	2017	61	56	20	241	378	22	-5	395
	2016	56	49	32	107	244	20	8	272
Loan loss provisions (including credit derivative)²⁾	2017	3	-1	-8	1	-5	-38	-13	-56
	2016	1	1	-6	-	-4	-35	-	-39
Administrative expenses	2017	-33	-14	-11	-22	-80	-57	1	-136
	2016	-35	-12	-14	-25	-86	-47	-11	-144
Net income before taxes	2017	25	34	-8	211	262	-101	-33	128
	2016	15	27	2	74	118	-126	-28	-36
Segment assets (€ bn)	31.12. 2017	12	11	6	24	53	21	11	85
	31.12. 2016	12	11	7	19	48	22	14	84

¹⁾ Following the change in the segment structure in the 2016 financial year, amounts disclosed were adjusted accordingly as at 31 March 2016.

²⁾ Summary of the loan loss provisions and hedging effect of credit derivative under second loss guarantee line items.

³⁾ Core Bank is the total of the four segments: Real Estate, Shipping, Corporate Clients and Treasury & Markets.

⁴⁾ Net income before taxes including result from restructuring and privatisation.

⁵⁾ Consolidation also includes the effects from differences in accounting

Change in the segment structure in the 2016 segment structure

The Bank adjusted its segment structure in the second half of 2016 based on the organisational changes implemented. Prior to these changes, the loan portfolios were consistently allocated in a first step to continuing operations in the Core Bank and to mostly non-performing portfolios in the Non-Core Bank designated for reducing risk. In a second step, the Bank changed the segment structure based on the portfolio reallocation. These changes were 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 therefore at establishing a rigorous and clear reporting process for each value creation structure as the basis for the privatisation process. All previous year's figures as at 31 March 2016 were adjusted accordingly for comparative purposes.

Further details on the portfolio reallocation and changes to the segment structure can be found in HSH Nordbank's Group Management Report for the 2016 financial year in the "Segments" sub-section of the "Economic Report" section.

Core Bank results exceed expectations

The Core Bank, in which HSH Nordbank's strategic activities are combined, increased its new business in the first quarter of 2017 in line with the plan in a partly very challenging environment and thus made further progress in implementing its client- and sector-based strategy.

The Core Bank generated net income before taxes of € 262 million, which were significantly above plan and the same period in the previous year (€ 118 million). The good operating performance of all segments of the Core Bank contributed to this. The interest margins achieved in a highly competitive environment showed a stable development compared to the previous quarter.

Total income of the Core Bank, which increased significantly by € 134 million to € 378 million compared to the same period in the previous year (€ 244 million), reflects in addition to new business transacted, the effects of sales of promissory note loans and securities of around € 174 million as well as measurement effects in net trading income.

The Core Bank results benefited in comparison with the Non-Core Bank from lower loan loss provision expense, which amounted in total, including credit derivatives, to € -5 million (same period in the previous year: € -4 million). The Bank had already recognised a large part of the loan loss provisions in the previous year in the Group financial statements as at 31 December 2015 as part of the implementation of the EU decision, whereby only a low level of loan loss provisions was recognised in the first quarter of 2016. 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 € - 86 million to € -80 million. The Core Bank results include € -5 million and therefore around 12% of the total guarantee expense.

Based on these positive results, which also includes the effect of the realisation of unrealised gains, the Core Bank achieved a return on equity of 32.2% (31 December 2016: 19.8%). The Core Bank's cost/income ratio was 21.1% (31 December 2016: 35.5%). Both values were above the planned levels. Total assets of the Core Bank increased significantly to € 53 billion as at 31 March 2017 (31 December 2016: € 48 billion) mainly as a result of the increase in cash reserves. This increase is attributable among other things to the increase in client deposits, maturities of securities as well as payments received from portfolio sales and the settlement of losses.

The NPE ratio decreased slightly in the first quarter of 2017 as a result of the reduction in the NPE volume coupled with an increase in total EaD. As expected, it was a low 1.7% (31 December 2016: 1.9%) and continues to reflect a solid portfolio quality.

KEY MANAGEMENT INDICATORS FOR THE CORE BANK

	31.3.2017	31.12.2016
Net income before taxes (€ m)	262	639
CIR	21.1 %	35.5 %
RoE	32.2 %	19.8 %
NPE ratio	1.7 %	1.9 %
New business (€ bn)	2.2	8.9

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

Segment results in the Core Bank

The Corporate Clients segment is organised on a sector-specific basis, in which the Energy & Infrastructure, Trade & Food, Healthcare, Industry & Services and Wealth Management business areas are combined. The activities previously allocated to the Logistics & Infrastructure and Energy & Utilities were combined under Energy & Infrastructure in the first quarter of 2017. The Corporate Clients segment generated net income before taxes of € 25 million for the first

three months (same period in the previous year: € 15 million). This includes total income of € 61 million (same period in the previous year: € 56 million), which reflects the business performance across all sectors in a highly competitive environment. Compared to the same period in the previous year, new business volume increased by € 0.2 billion to € 0.8 billion. Nevertheless, new business still fell short of expectations mainly because of the continuing intense competition. Developments in the trade & food sectors made a major contribution to the increase over the previous year. Total loan volume increased compared to the previous year, due to the marked increase in new business since the fourth quarter of 2016. Structured project financing transactions have so far been concluded mainly in the railway transport and data infrastructure sectors. Furthermore, wind energy projects among others were concluded in Ireland.

The Real Estate Segment made a significant contribution of € 34 million to Bank earnings in the first quarter of 2017 (same period in the previous year: € 27 million). The segment once again recorded a positive performance and this reflects the Bank's good market position in this sector. Despite the continuing highly competitive environment the division succeeded in increasing new business by € 1.1 billion in the first quarter of 2017, which was better than planned and also exceeded the volume transacted in the same period in the previous year by a considerable extent. Business in the West German metropolitan regions and with international institutional investors was particularly satisfactory. It was possible to maintain the high market penetration in the core region of North Germany.

Total income amounted to € 20 million in the Shipping segment and was significantly below that for the same period in the previous year (€ 32 million). This is attributable to a decrease in net interest income resulting from the reduction in the volume of loans and advances. Net income before taxes amounted to € -8 million compared to € 2 million for the same period in the previous year and also includes somewhat higher loan loss provision expense of € -8 million (same period in the previous year: € -6 million). The shipping market was characterised in the first quarter of 2017 by a continuing challenging market environment. New business transacted with counterparties of good credit quality amounted to € 0.2 billion for the first 3 months.

The Treasury & Markets segment generated net income before taxes of € 211 million (same period in the previous year: € 74 million). The sale and distribution of capital markets products generated earnings above the previous year's level, with positive trends in the derivatives business. Deposit business with savings banks and institutional investors exceeded the ambition level. In addition, the realisation of unrealised gains arising on the sale of promissory note loans to optimise cover pools in the public sector Pfandbrief business made a significant contribution to the results.

The Core Bank's results also include the material results of the Transaction Banking product division, which is organisationally assigned to "Other and Consolidation". Product net income amounted in total to € 4 million (same period in the previous year: € 4 million) and especially includes income from the use of products by clients in the area of payment transactions, from account management including investment products as well as 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 internal management system, the whole of the net income of the Transaction Banking product division is disclosed in the client divisions and therefore in the results of the individual segments.

Segment results of the Non-Core Bank

As expected for structural reasons, the Non-Core Bank, in which non-performing loans earmarked for winding down are combined, disclosed a net loss of € –101 million as at 31 March 2017 (same period in the previous year: € –126 million). The loss is mainly attributable to the continued winding down of the portfolio and setting of loans to a non-accrual basis as part of the recognition of loan loss provisions.

Total income of the Non-Core Bank amounted to € 22 million (same period in the previous year: € 20 million). Net interest income of € –13 million (same period in the previous year: € 19 million) and net trading income of € 27 million (same period in the previous year: € –8 million) made a significant contribution to this. The sharp reduction in net interest income is mainly attributable to the decrease in the interest-bearing volume of loans and advances.

Net income before taxes was also adversely impacted by higher loan loss provision expense of € –187 million (same period in the previous year: € –53 million). The Bank had already recognised a large part of the loan loss provisions in the previous year in the Group financial statements as at 31 December 2015 as part of the implementation of the EU decision, whereby only a comparatively low level of loan loss provisions were recognised in the first quarter of 2016. Loan loss provisions recognised mainly for shipping loans and the energy wind-down portfolio was compensated for in the guaranteed portfolio by the guarantee up to its full balance sheet utilisation. After taking account of the compensation, which also includes the positive impact of the settlement of losses as well as currency effects and the hedging effect of the credit derivative loan loss provision expense recognised in the Non-Core Bank amounted to € –38 million after the guarantee effect (same period in the previous year: € –35 million).

Administrative expenses amounted to € –57 million (same period in the previous year: –47 million) and included € –10 million of unscheduled depreciation. Expense for the second loss guarantee amounted to € –36 million (same period in the previous year: € –57 million) and expenses for the bank levy and deposit guarantee fund € –10 million (same period in the previous year: € –18 million). The Non-Core Bank accounted for around 88% of the total guarantee expense.

Total assets of the Non-Core Bank declined to € 21 billion as at 31 March 2017 (31 December 2016: € 22 billion) due to the reduction in the portfolio.

Its NPE ratio is very high for structural reasons. Despite the reduction in the NPE volume the ratio declined further in the first quarter of 2017 to 65.5% due to a simultaneous marked decrease in EaD. The Bank assumes in its planning that, for 2017 as a whole, the NPE ratio in the Non-Core Bank will continue to decrease markedly over the remainder of the year. The coverage ratio increased slightly to 48.4% compared to the previous quarter (47.7%) and reflects an overall solid risk coverage in the NPE portfolio. The Bank has accordingly assumed a moderate improvement for the year as a whole. The coverage ratio in the shipping portfolio of the Non-Core Bank decreased from 59.2% to 57.0% despite it being the focal point of the loan loss provisions recognised.

KEY MANAGEMENT INDICATORS FOR THE NON-CORE BANK

	31.3.2017	31.12.2016
Net income before taxes (€ m)	–101	–299
NPE ratio	65.5%	63.6%
Coverage ratio	48.4%	47.7%
Total assets (€ bn)	21	22

Results "Other and Consolidation"

Administrative functions and overall bank positions are disclosed in Other under "Other and Consolidation" as segments not subject to reporting requirements. Consolidation also comprises items 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 the result from restructuring and privatisation is allocated in full to this division.

Net income before taxes amounted to a loss of € –33 million as at 31 March 2017 (same period in the previous year: € –28 million), which was attributable to charges recognised in total income and restructuring expenses of € –16 million (same period in the previous year: € –14 million) incurred in connection with the planned head-count reduction and privatisation. Income from the management of liquidity and capital positions made a positive contribution to net income.

Essentially liquidity reserves are disclosed in the segment assets of "Other and Consolidation". The segment assets amounted to € 11 billion as at 31 March 2017 (31 December 2016: € 14 billion). The decrease is largely related to maturities of securities and securities repurchase agreements transacted.

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 Annual Report as at 31 December 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. Actual events may therefore differ considerably from the following forward-looking statements below.

Positive start to the privatisation year – net profit for the year expected

The coming months will be strongly influenced by the ongoing privatisation process. Following the positive conclusion of the first privatisation phase which ended with the submission of indicative bids by interested investors on 31 March 2017, the second demanding due diligence phase started in April 2017. The Bank and its federal state owners have planned meticulously and prepared the necessary documentation and data rooms to ensure a continuing smooth process. Based on the progress made so far in the privatisation process, the Bank together with its federal state owners remains confident that it will be able to overcome the future challenges of a naturally very complex sales process.

Privatisation is taking place in a delicate balance between the forward-looking Core Bank, the high charges incurred as a result of the legacy loans held in the Non-Core Bank and the complex guarantee structure in terms of its settlement procedures and regulatory effect. It should be borne in mind that the guarantee is committed for the most part to the present Non-Core Bank and is therefore an essential element of the Non-Core Bank's capital base. A solution is therefore required in the context of the privatisation that ensures a sustainable business model with a resilient profitability, capital, risk and liquidity profile. In this regard, alternative viable privatisation solutions are also not excluded, which will then have to be determined between the owners and potential investors.

Concurrently with the privatisation process the Bank will in the next quarters, on the one hand, systematically drive forward client business on the basis of the operating successes achieved and, on the other, implement the ongoing strategic and operating optimisation in a focussed manner. Furthermore, the ongoing winding-down of non-performing loans will be continued vigorously in order to further reduce the high amount of legacy loans covered by the guarantee, which were entered into as part of the strong business expansion in the years prior to 2009 and not decisively reduced by the EU decision

in 2016, within the narrow limits set by the terms and conditions of the guarantee. These various measures will further strengthen the progress already made in realigning the Core Bank. This will create a business model for HSH Nordbank which, at a minimum, should convince clients, employees and investors as well as potential bidders and facilitate a successful change in ownership.

In summary, substantial challenges and uncertainty regarding the future development of HSH Nordbank may arise particularly from any potentially deviation from the planned privatisation process, the continuing very difficult market conditions in the shipping industry, the low level of interest rates and highly competitive environment, volatility in the financial and currency markets (particularly the US dollar), changing assessments from the rating agencies and increasing requirements of the European bank regulators. The privatisation process, during which intense political discussions cannot be excluded, should be structured by the federal state owners in such a way that the Bank's forward-looking perspective as a recognised partner for the interests of the economy is not adversely affected.

It is also extremely important that, despite a multitude of influencing factors (regulatory effectiveness of the second loss guarantee, discretionary decisions on the part of the banking supervisory authorities, uncertainty regarding the of the IFRS 9 conversion, potential losses on the sale of loan portfolio, assumed long-term recovery of the shipping markets), the minimum capital ratios are complied with at both the HSH Nordbank sub-group level and the financial holding company level (HSH Beteiligungs Management GmbH) and liquidity position requirements are complied with at all times despite possible adverse developments in the privatisation process or, for instance, in the event of reactions of the rating agencies.

With respect to the regulatory effectiveness of the second loss guarantee, it is expected that the supervisory authorities will perform a follow-up review of the second loss guarantee mechanism including compliance with the transfer of significant risk in the context of the privatisation with regard to the treatment of the second loss guarantee. The public owners and potential investors involved in the privatisation process have been notified of this.

Over the coming years, the future results of HSH Nordbank are likely to benefit noticeably from the implementation of the structural measures and further implementation of the strategy. The Bank considers the forecast statements made in the Group financial statements as at 31 December 2016 to be still valid for the whole of 2017. The Bank expects, in particular, to generate net income before taxes at the Group level for 2017 that is at the previous year's level. A moderate

increase in net income before taxes and a further noticeable improvement in the return on equity are expected for the Core Bank in 2017. Net income before taxes for the Non-Core Bank is expected to decrease even more markedly due to the ongoing winding down of the portfolio in 2017 and the planned loan loss provisions on a full balance sheet utilisation of the guarantee. In principle, the Bank remains cautious in its earnings forecast for the whole of 2017 given the continuing challenging environment for banks in general and HSH Nordbank in particular.

In light of the EU decision, the Bank expects not to make any coupon payments on the hybrid capital instruments during the divestiture period as part of the implementation of the structural measures. Against this backdrop the Bank assumes that, on the successful conclusion of the change in ownership, it will again be able to pay dividends and make distributions on hybrid capital for the 2019 financial year at the earliest in 2020.

In order to fulfil the net income forecast for the 2017 financial year, HSH Nordbank's plan needs to be implemented as intended and the risks described in the Group management report as at 31 December 2016 do not materialise.

The assumption of the Bank as a going concern for accounting and measurement purposes and the assumption of the continued going concern of HSH Nordbank AG and significant group companies are based in particular on the following assumptions:

(i) the agreements required for the implementation of the 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 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 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 that the bank is wound down as a result of the above or for other reasons, or if its rating is downgraded or other adverse developments emerge during the privatisation period, it could trigger outflows of short-term funds and fundamentally restrict HSH Nordbank's funding options. In the case of major unexpected outflows of funds, additional meas-

ures will need to be taken by the owners and/or third parties to strengthen the liquidity situation.

(iii) as part of the ongoing privatisation process of HSH Nordbank AG, HSH Nordbank AG will be sold in full as a whole bank, i.e. the shares in the Bank held by the seller will be disposed of, including all assets and liabilities, without any material early disposals of assets or sub-segments at prices below the carrying amount in the event of outstanding bids for an overall sale. If extensive sales of loan portfolios, particularly in the Non-Core Bank, are required, it could result in significant additional loan loss provision expenses that are not compensated for by the guarantee and could require material depreciation of deferred taxes.

(iv) the minimum capital requirements at all regulatory levels can be adhered to in accordance with the corresponding SREP resolutions passed by the European Central Bank and the statutory provisions during the forecast period. If there is a need for significant additional loan loss provision expenses and material depreciation of deferred taxes (e.g. in the scenario described above) or if the recovery of the shipping market that has been assumed in the Bank's corporate planning does not materialise as planned, or the significant risk transfer for the second loss guarantee is no longer ensured from the perspective of the banking supervisory authority, it could put considerable pressure on the capital ratios and additional measures may need to be taken by the owners and/or third parties to strengthen the capital ratios in order to be able to adhere to the minimum capital requirements, particularly at the level of the financial holding group. If such measures are not taken, it could result in the winding down of HSH Nordbank.

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.

Further details on expectations for the current year and significant opportunities and risks are set out in the detailed Group Management Report of HSH Nordbank as at 31 December 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 exclusively for the sake of better readability. This financial information was published on 16 Juni 2017 and is available at www.hsh-nordbank.com.

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

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 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.

