

THE DI- RECTION IS RIGHT.

**FINANCIAL INFORMATION
AS AT 30 SEPTEMBER 2017**



HSH NORD- BANK GROUP AT A GLANCE.

INCOME STATEMENT in (€ m)

	January - September 2017	January - June 2016
Net income before restructuring	360	471
Net income before taxes	201	183
Group net result	176	163

BALANCE SHEET in (€ bn)

	30.09.2017	31.12.2016
Equity	5.1	5.0
Total assets	76.5	84.4
Business volume	83.9	93.2

CAPITAL RATIOS¹⁾ & LEVERAGE RATIO (%)

	30.09.2017	31.12.2016
CET1 ratio	19.2	14.1
Tier 1 capital ratio	23.9	18.7
Regulatory capital ratio	31.6	24.8
Leverage ratio	7.8	6.9

EMPLOYEES (computed on full-time equivalent basis)

	30.09.2017	31.12.2016
Total	1,964	2,164
Germany	1,874	2,068
Abroad	90	96

LONG-TERM RATINGS

	Unguaranteed liabilities	Guaranteed liabilities ³⁾	Public-sector Pfandbriefe	Mortgage Pfandbriefe	Ship Pfandbriefe
Moody's	Baa3 dev. ⁴⁾	Aa1 stable	Aa2	Aa 3	Baa 1
Fitch	BBB- neg.	AAA stable	-	-	-

¹⁾ In-period; ceteris paribus calculation taking full account of the balance sheet amounts as at the reporting date.

²⁾ Not in-period; regulatory disclosure pursuant to the CRR (balance sheet amounts as at the reporting date only included in part).

³⁾ Liabilities covered by the guarantor liability (Gewährträgerhaftung).

⁴⁾ dev.: developing

CON- TENTS

2 HSH NORDBANK AT A GLANCE

**4 BUSINESS DEVELOPMENTS
AS AT 31 MARCH 2017**

- 4 Overview of business performance
- 9 Net earnings
- 11 Net assets and financial position
- 15 Segment results
- 19 Outlook

23 CONTACT/IMPRINT

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 30 SEPTEMBER 2017

INCOME STATEMENT

(€ m)	January – September 2017	January – September 2016	Change in %
Interest income	2,466	2,664	-7
Negative interest on deposits and derivatives	-229	-121	89
Interest expense	-1,692	-2,066	-18
Positive interest on borrowings and derivatives	226	116	95
Net loss from hybrid financial instruments	-83	-90	8
Net interest income	688	503	37
Net commission income	52	69	-25
Result from hedging	-14	-2	> -100
Net trading income	159	66	> 100
Net income from financial investments	130	90	44
Net income from financial investments accounted for under the equity method	-3	2	> -100
Total income	1,012	728	39
Loan loss provisions in the lending business	-218	520	> -100
Hedging effect of credit derivative under the second loss guarantee	-104	-371	72
Administrative expenses	-366	-421	-13
Other operating income	77	71	8
Expenses for bank levy and deposit guarantee fund	-41	-56	-27
Net income before restructuring and privatisation	360	471	-24
Net income from restructuring and privatisation	-43	-118	64
Expenses for government guarantees	-116	-170	-32
Net income before taxes	201	183	10
Income taxes	-25	-20	25
Group net result	176	163	8
Comprehensive income attributable to non-controlling interests	10	-	> 100
Group net income attributable to HSH Nordbank shareholders	166	163	2

BALANCE SHEET
ASSETS

(€ m)	30.09.2017	31.12.2016	Change in %
Cash reserve	7,609	3,491	>100
Loans and advances to banks	3,337	4,192	-20
Loans and advances to customers	42,684	50,910	-16
Loan loss provisions	1,750	1,142	53
Credit derivative under the second loss guarantee	99	199	-50
Positive fair value of hedging derivatives	479	508	-6
Positive adjustment item from portfolio fair value hedges	283	403	-30
Trading assets	3,860	5,433	-29
Financial investments	14,965	15,493	-3
Financial investments accounted for under the equity method	7	13	-46
Intangible assets	11	14	-21
Property, plant and equipment	233	236	-1
Investment property	10	12	-17
Non-current assets held for sale and disposal groups	298	1,382	-78
Current tax assets	44	65	-32
Deferred tax assets	719	767	-6
Other assets	93	105	-11
Total assets	76,481	84,365	-9

LIABILITIES

(€ m)	30.09.2017	31.12.2016	Change in %
Liabilities to banks	8,761	9,501	-8
Liabilities to customers	39,259	40,172	-2
Securitised liabilities	13,557	16,624	-18
Negative fair values of hedging derivatives	209	290	-28
Negative adjustment item from portfolio fair value hedge	583	786	-26
Trading liabilities	4,259	5,981	-29
Provisions	1,374	1,521	-10
Liabilities relating to disposal groups	43	65	-34
Current tax liabilities	41	87	-53
Deferred tax liabilities	7	7	-
Other liabilities	810	845	-4
Subordinated capital	2,484	3,536	-30
Equity	5,094	4,950	3
Share capital	3,018	3,018	-
Capital reserve	75	75	-
Retained earnings	1,709	1,617	6
Revaluation reserve	117	127	-8
Currency conversion reserve	11	60	-82
Group net result	166	67	> -100
Total before non-controlling interests	5,096	4,964	3
Non-controlling interests	-2	-14	-86
Total equity and liabilities	76,481	84,365	-9

BUSINESS DEVELOPMENTS AS AT 30 SEPTEMBER 2017

OVERVIEW OF BUSINESS PERFORMANCE

Sustained positive development

HSH Nordbank showed positive development overall in the first nine months of the year and has laid a good foundation for a successful transfer of ownership. Developments in the third quarter of 2017, in particular, have further improved the chances of privatisation. First, the good overall economic and financial environment and the improved situation on the shipping markets were exploited to significantly accelerate the ongoing reduction in legacy burdens. Second, operating activities and all of the key management indicators showed positive development, which once again bore impressive testimony to the Bank's performance and potential despite the uncertainty associated with the privatisation phase. This has laid the foundation that will allow the Bank to bring the privatisation process to a successful conclusion.

The timely receipt of several binding offers for the Overall Bank on 27 October 2017 marked a key milestone in the privatisation process. The federal state owners and HSH Nordbank assess these offers as a solid basis for the further negotiations with the bidders and for the continuation of the privatisation process. Within this context, the Bank's positive business development meets one of the prerequisites for the continuation of the privatisation process in line with the plan.

The following business developments are particularly worthy of mention as at 30 September 2017:

- Good operating development within the Core Bank: the new business volume developed in line with the plan in the first nine months of 2017 and was once again up considerably on the prior year, namely by +11%, as at 30 September 2017. Thanks to further moves to step up its sales activities, the Bank managed to operate successfully again in the third quarter on the basis of existing client relationships and the acquisition of new clients. The focus was on acquiring new business with a risk/return profile that is appropriate in light of the current competitive environment.
- Wind-down portfolio: at € 7.4 billion (EaD in the Non-Core Bank) winding-down measures significantly ahead of plan, with a marked reduction in non-performing legacy loans, which come to € 5.4 billion. The Bank accelerated the implementation of its winding-down strategy considerably in the third quarter of 2017, making a decisive contribution to the positive development of the privatisation process. This adjustment is due to an improved shipping market environment in the reporting period, with rising charter rates and a recovery in ship values in key segments, the stringent conclusion of major restructuring measures focusing on reducing historical concentration risks, and EUR/USD exchange rate developments. The NPE ratio, which is high due to legacy burdens, has fallen considerably in this environment to 11.7%. Based on the dynamic winding-down activities to date, the Bank assumes that, provided the overall

conditions remain unchanged, it will be able to reduce the wind-down portfolio to around € 11.8 billion (thereof legacy burdens of € 7.5 billion, EaD in the Non-Core Bank in each case) by the end of 2017 without putting any additional pressure on earnings. This would mean that the ambitious wind-down target originally set for this year of around € 5.5 billion at the end of 2017 would be significantly exceeded, with a reduction that would then total around € 9.6 billion.

- Systematic implementation of the cost programme: the planned cost savings potential has been leveraged in line with the requirements, with a visible 13% reduction in administrative expenses to € 366 million as at 30 September 2017. This means that the plan targets have been exceeded as at 30 September 2017.
- Capital and liquidity ratios at a high level: key management indicators for capital and liquidity were still at a very solid level. The indicative pro-forma CET1 ratio that was introduced as a reporting requirement at the end of the first half of the year and is calculated excluding the exoneration effect of the second loss guarantee (for explanatory information, see the section entitled "Capital and funding") is showing positive development and comes to 16.3% as at 30 September 2017.

Key milestone reached in the privatisation process

Based on the formal decision in the EU state aid proceedings, HSH Nordbank AG has to be sold by 28 February 2018. The receipt of substantiated binding offers for the Overall Bank on 27 October 2017 marked a key milestone in the privatisation process, which is now entering the decisive phase. Over the next few weeks, the federal state owners will be conducting concrete contractual negotiations in order to conclude the envisaged sale of HSH Nordbank on schedule. At the same time, the Bank will continue to intensively pursue the stringent restructuring measures it has been implementing to date, doing everything in its power to contribute to the successful development of the privatisation process. In addition, the Bank will provide constructive support in all strategic and structural matters that are to be discussed further among all stakeholders in order to facilitate the financially sustainable realignment of HSH Nordbank envisaged by the Management Board to create a new bank that is geared to the private sector in the future. This is also, and not least, necessary in light of the viability review of the new corporate structure to be performed by the European Commission at the end of the privatisation process.

In accordance with the communications released by the federal state owners and HSH Nordbank on 29 October 2017, the Overall Bank offers received on 27 October 2017 provide a good basis for the continuation of the sales process and the initiation of concrete contractual negotiations. As expected, several Overall Bank offers were received for HSH Nordbank. The binding offers show that bidders are looking at the Bank from a forward-looking perspective. The realignment of the Bank's activities that the Management Board is aiming to achieve provides a solid foundation in this respect. The process will continue with final contractual negotiations with selected bidders initiated by

the federal state owners based on a detailed analysis of the offers received. A purchase agreement is expected to be negotiated by 28 February 2018 at the latest, after which the European Commission will assess the economic viability of the new bank following privatisation. In this exceptionally complex process, numerous aspects will be up for discussion before a purchase agreement can be concluded. These include, among other things, the full settlement of the second loss guarantee, the transition from the public-sector to a private deposit guarantee scheme, and organisational and strategic aspects relating to the Bank's realignment.

Encouraging new business development

During the reporting period, the Bank worked intensively and in line with the plan to forge ahead with its operating business activities. The focus was on generating new business with an appropriate risk/return profile in a market environment that remains challenging. In the first nine months of 2017, the Core Bank's new business showed positive development and is still in line with the ambitious target. It amounted to € 6.4 billion, up considerably on the volume seen in the same period of the previous year (€ 5.8 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 transacted in the Corporate Clients division is on a par with the prior-year level. Due to the sustained intense competition and low margins, however, it was not possible to achieve the planned development for this segment in full. The targeted management of the risk profile in the shipping segment generally results in extremely selective new business being transacted at a predictably low level.

The ratio of new loans disbursed to new business concluded (disbursement ratio) is improving further in a quarter-on-quarter comparison. The interest margins achieved are falling slightly and still fall short of the level of ambition due to the highly competitive environment. Cross-selling net income generated by various banking services over and above loan financing showed encouraging development in the first nine months of 2017 and was once again well above the planned level. Investment products, loan commission and income from derivative business transacted with clients made a key contribution to this trend.

Significantly accelerated enforcement of the winding-down strategy

The Bank accelerated the implementation of its targeted winding-down strategy significantly in the third quarter of 2017. This is largely due to three factors:

- Developments on the shipping markets have been pointing towards a better-than-expected recovery trend for several months now. This trend is particularly evident in the container vessel and bulker segments, and is based first and foremost on a

revival in demand for transportation capacities, brisk scrapping activities and the consolidation of shipping lines.

- Taking the current favourable market environment into account, the Bank has adjusted its restructuring principles and is now focusing its restructuring strategies even more on the specific recovery outlook for each individual commitment. The implementation of the resulting even more targeted and faster winding-down strategy will also help to reduce historical concentration risks and will be facilitated, in particular, by the high coverage ratio, i.e. without putting any additional pressure on earnings.
- The development of the EUR/USD exchange rate is also having a positive impact on the marked reduction in the portfolio of legacy burdens. This effect contributed € 0.9 billion in the reporting period.

All in all, the Bank wound down the portfolio of impaired and non-strategic loans by € 7.4 billion (EaD in the Non-Core Bank) during the reporting period. € 5.4 billion of this amount is attributable to the NPE legacy portfolio. The winding-down measures continue to focus on reducing non-performing ship financing transactions dating from the years before 2009 that fall under the second loss guarantee of the federal state owners as the reference portfolio. In addition to reducing the portfolio by implementing recovery strategies, an amount of € 2.6 billion relating to continental European real estate financing, as well as aircraft and solar financing, was sold in the reporting period as part of market portfolio transactions. These winding-down measures reduce the NPE ratio significantly again, to a total of 11.7%. In spite of the considerable improvements achieved to date, this level is still too high. As a result, the Bank has defined further extensive winding-down measures that it will continue to implement systematically over the next few quarters, also in light of the restrictive requirements set out in the guarantee agreement. This will lay the necessary foundation for successful privatisation and a business model that is sustainable in the long run, the aim being to achieve an NPE ratio that is below the European market average in the future. By the end of 2017, the Bank expects to be able to reduce the Non-Core Bank portfolio from € 21.4 billion as at 31 December 2016 to € 11.8 billion (EaD in the Non-Core Bank in each case). This will reduce the volume of non-performing legacy commitments from € 13.6 billion to around € 7.5 billion. 90% of this reduction was already achieved by 30 September 2017. The non-strategic and fully performing loan portfolio will amount to around € 4.4 billion at the end of 2017 and does not necessarily have to be wound down as things stand at the moment, once that the EU restrictions imposed by the first EU decision of 20 September 2011 no longer apply.

Further details on the EU decision and the EU structural measures, as well as their impact on HSH Nordbank, can be found in the interim report as at 30 June 2017 in the chapter entitled "Forecast, Opportunities and Risks Report" under "Forecast report including opportunities and risks".

Consistent pursuance of the 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. In addition, substantial additional expenses are currently being incurred in connection with the privatisation process (e.g. for legal and advisory services, data rooms) and the restructuring of major commitments in the Non-Core Bank.

In the course of 2017 to date, the Bank has made the progress it planned to make in implementing measures for controllable operating expenses. The expected potential for cost savings based on the optimisation of the organisation and processes has been realised according to expectations and, in some cases, has even slightly exceeded expectations. The targeted management of operating expenses has resulted in a reduction in project costs, building costs and other personnel-related operating expenses in particular, allowing the Bank to compensate for unplanned special depreciation allowances. As far as personnel expenses are concerned, most of the planned reduction has already been contractually agreed with employees and the ambitious targets for personnel expenses have been reached.

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 framework of management reporting, the Bank focuses on the most important management indicators for the individual value drivers of the IFRS Group. On the one hand, the focus is placed on the change in these key indicators compared to the same period in the previous year and, on the other, on their expected change over the remainder of 2017.

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

Satisfactory Core Bank results

In the first nine months of 2017, the Core Bank, which comprises the strategic portfolios of the Corporate Clients, Real Estate, Shipping and Treasury & Markets segments, achieved net income before taxes of € 609 million, which was noticeably above that of the prior year (same period of the previous year: € 532 million). All segments made a positive contribution to the overall good earnings performance.

The total income of the Core Bank amounted to € 886 million and is markedly above the previous year's value of € 799 million. This was fuelled by the increase in net interest income, which rose to € 666 million and reflects the fact that operating interest income showed slightly better development than planned. In addition, the planned effects of the realisation of unrealised gains by sales of promissory note loans in the amount of € 356 million had a positive impact. This potential was leveraged as planned, in particular, in order to partly compensate for the considerable structural burdens in the Non-Core Bank. Additionally, net trading income, which includes earnings contributions from the operating client business, the management of central liquidity and market price risks, as well as valuation effects from client derivatives and assets measured at fair value, made an essential contribution.

The good portfolio quality in the Core Bank, with a low NPE ratio of 1.5%, is responsible for the low loan loss provisions, which amounted to € –14 million (same period of the previous year: € –13 million), taking into account the reversal of general loan loss provisions. Including the compensation effect and foreign exchange rate effects, the Core Bank's loan loss provisions come to € –7 million after the effect of the guarantee (same period of the previous year: € 41 million).

The ongoing cost reduction programme was implemented stringently in the Core Bank as well. Administrative expenses amounted to € –241 million, around 9% lower than in the same period of the previous year (€ –264 million). The expenses for bank levy and deposit guarantee fund and the expenses for government guarantees put pressure on the net income of the Core Bank in the amount of € –41 million. The Core Bank is responsible for around € –16 million/13.8% of the total guarantee expenses, as the portfolios hedged by the second loss guarantee in the Core Bank only involve a small amount of tied-up equity.

Loan loss provisions in the Non-Core Bank remain high

The Non-Core Bank, which bundles non-strategic assets and the legacy loans which are earmarked for winding-down and are largely non-performing, reported a net loss of € -476 million on 30 September 2017, as was to be expected for structural reasons (same period of the previous year: € -175 million). A considerable loan loss provision expense of € -445 million (same period of the previous year: € -968 million) contributed to this result. These expenses are attributable to the legacy loan portfolio and relate to shipping loans and a small number of legacy cases in the energy sector. On the other hand, loan loss provisions were reversed in the real estate portfolio of the Non-Core Bank. Taking into account the compensation effect and including foreign exchange rate effects and the hedging effect of the credit derivative, loan loss provisions in the Non-Core Bank amounted to € -318 million (same period of the previous year: € 88 million). Due to the full balance sheet utilisation of the second loss guarantee in the first quarter of 2017, the loan loss provisions recognised were no longer compensated for in full, as planned. This played a key role in increasing the loss in the Non-Core Bank.

In addition, the net result includes € -148 million in administrative expenses (same period of the previous year: € -181 million) and € -101 million in expenses for the second loss guarantee (same period of the previous year: € -153 million). The drop in the guarantee payments, which are calculated based on the undrawn portion of the guarantee, was due to the increasing invoicing of losses under the guarantee, which is utilised in full in the balance sheet. The negative net result was also shaped by a drop in net interest income due to the continued winding down of the portfolio. Within the context of the recognition of loan loss provisions, the resulting setting of loans to a non-accrual basis led to a reduction in the loan volume and reduced interest income.

Overall satisfactory Group performance

The Group net result before taxes for the first nine months 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. As at 30 September 2017, it comes to € 201 million, up by around 10% on the prior-year level (30 September 2016: € 183 million) and exceeds expectations. The fact that developments have been better than the pro rata plan is due to the positive results reported by the strategic divisions of the Core Bank, as well as to successful cost savings within the Group. In addition, value clarification events relating to financial investments also contributed to this development. This means that the Bank managed, in line with its expectations, to more than compensate for the considerable burdens associated with legacy assets in the Non-Core Bank and substantial guarantee, restructuring and privatisation expenses. After taxes, the Group net result came to € 176 million as at 30 September 2017 (same period of the previous year: € 163 million).

The return on equity for the Group calculated on the basis of net income before taxes is with 5.3% noticeably higher than the planned value (31 December 2016: 2.5%). The cost-income ratio comes to 33.6% (31 December 2016: 64.8%), which represents a marked improvement compared with the plan and compared with the previous year. Both values include effects from the realisation of unrealised gains, meaning that they are overstated.

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 in recent years. Nevertheless, the NPE ratio was reduced considerably in the first nine months of 2017. As at 30 September 2017, it came to 11.7% compared with 17.5% as at 31 December 2016. This development, which exceeds expectations by far, is due, in particular, to the accelerated implementation of the winding-down strategy, which also includes effects from the sale of the market portfolios. During the reporting period, the Bank reduced its NPE volume in the Non-Core Bank by a total of € 5.4 billion. The Bank aims to implement further winding-down measures planned for the fourth quarter of 2017 in order to further reduce the NPE portfolio between now and the end of 2017 and beyond and, as a result, the NPE ratio, which is still too high overall.

The coverage ratio of the entire NPE volume has improved in line with expectations to 55.3% (31 December 2016: 48.4%). It reflects continued solid coverage of the entire NPE portfolio. In the shipping portfolio, the coverage ratio comes to 61.6% (31 December 2016: 59.8%).

The indicative pro-forma CET1 ratio, which is also relevant from a management perspective in light of the privatisation process and is calculated on an in-period basis excluding the regulatory relief effect of the second loss guarantee (for explanatory information, please refer to the section entitled "Capital and funding"), amounted to 16.3% on 30 September 2017, putting it at a high level. The in-period core Tier 1 capital ratio, including the regulatory effect of the guarantee, amounted to 19.2% as at 30 September 2017 (31 December 2016: 14.1%), meaning that it is also once again at a high level. The development in the capital ratios compared with 31 December 2016 is due, in particular, to the marked reduction in RWA. This largely reflects the successful NPE reduction as part of the accelerated winding-down strategy. The weak USD exchange rate and the net result as at 30 September 2017 also had an impact on the values. The liquidity ratios (survival period: nine months, LCR: 200% and NSFR: 115%) are ahead of the Bank's plans and are much higher than the ECB's minimum requirements at this very good level.

KEY GROUP MANAGEMENT INDICATORS

	30.09.2017	31.12.2016 (30.09.2016)
Net income before taxes (€ m)	201	121 (183)
CIR	33.6%	64.8% (52.7%)
RoE	5.3%	2.5% (5.0%)
NPE ratio	11.7%	17.5%
Coverage ratio	55.3%	48.4%
CET1 ratio ¹⁾	19.2%	14.1%
Pro-forma CET1 capital ratio ^{1) 2)}	16.3%	12.6%
Survival period	9 months	10 months
LCR	200.0%	229.0%
NSFR	115.0%	111.0%

1) In-period: ceteris paribus calculation taking full account of the balance sheet amounts as per reporting date.

2) The term "pro-forma" means that, for the items included in the reference portfolio for the second loss guarantee, the RWA are recognised in line with the credit risk rules and not in line with the rules regarding securitisation, whereas loan loss provisions that have been setup are fully recognised.

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

NET EARNINGS

Increase in total income, net operating interest income and the realisation of unrealised gains have a positive impact

Total income for the first nine months of 2017 increased considerably to € 1,012 million compared to € 728 million in the same period in the previous year. Interest income from operating activities and effects resulting from the planned realisation of unrealised gains totalling € 356 million (thereof € 266 million in net interest income, € 39 million in net trading income and € 51 million in net income from financial investments) made a key contribution in this regard. The following developments in the individual income line items were relevant:

Net interest income contributed € 688 million (same period of the previous year: € 503 million) to total income. First, interest income from operating activities that was slightly higher than expected had a marked positive impact. Second, the figure includes realisation effects of around € 266 million (same period of the previous year: € 106 million). This means that the sales of securities planned for 2017 as a whole had already been implemented in full by 30 September 2017, compensating for the structural losses reported by the Non-Core Bank as planned. 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 € 52 million as at 30 September 2017 compared to € 69 million in the same period of the previous year. The drop in net commission income is due, in particular, to the premium expense resulting from the synthetic securitisation transaction, which has been included in this item since the fourth quarter of 2016. Cross-selling net income, on the other hand, was positive and significantly exceeded the pro rata plan.

Net trading income made a noticeable contribution of € 159 million to total income in the first nine months of 2017 (same period in the previous year: € 66 million). This development reflects the positive impact of net income from foreign currency (€ 62 million) and increases in value in the credit investment portfolio. Net trading income was hit by the valuation result recognised on EUR/USD basis swaps in the amount of € –20 million. In accordance with the list of conditions and commitments of the first European Commission decision of 20 September 2011, the Bank does not engage in proprietary trading.

Net income from financial investments amounted to € 127 million and mainly includes gains realised on disposals (€ 58 million), effects resulting from the planned realisation of unrealised gains (€ 51 million) and increases in value in the credit investment portfolio (€ 25 million). This figure came to € 92 million in the same period of the previous year, largely due to gains from the disposal of securities.

Continuing high level of loan loss provisions

In the first nine months of 2017, loan loss provisions were still characterised by considerable amounts allocated for legacy loan exposures which, as the reference portfolio, fall under the second loss guarantee. Additional loan loss expense was recognised for legacy transactions in the shipping portfolio to continue to reflect the ongoing difficult market developments on the whole, despite slight recovery trends. In addition, loan loss provisions were recognised in the energy portfolio of the Non-Core Bank for commitments dating from the years prior to 2009. In contrast, the risk trend in other business sectors remained largely insignificant. The real estate client portfolio was characterised by the reversal of loan loss provisions due to loan repayments and improved risk assessments.

In total, loan loss provisions amounted to € –456 million as at 30 September 2017 before taking account of the compensation effect of the guarantee (same period in the previous year: € –966 million). This means that, while the additions to loan loss provisions are down considerably year-on-year, they are still at a high level in line with expectations.

The loan loss provisions recognised, once again, for legacy portfolios, in particular, were no longer compensated for in full as at the reporting date due to the full balance sheet utilisation of the second loss guarantee in the first quarter of 2017. Allowing for the hedging effect resulting from the credit derivative in the amount of € –104 million (same period of the previous year: € –371 million) and including foreign exchange rate effects and the compensation effect provided by the second loss guarantee, loan loss provisions came to a total of € –322 million (same period of the previous year: € 149 million), putting substantial pressure on the Group net result.

The second loss guarantee of € 10 billion has been utilised in full in the balance sheet as at the reporting date. The cash drawdowns of the guarantee exceed the Bank's first loss piece (€ 3.2 billion) by € 3.8 billion. Losses signed-up for settlement amount to € 0.5 billion. This means that the guarantee utilisation is gradually increasing due to the invoicing of losses under the guarantee.

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 € 3.3 billion as at the reporting date (including one-off payments of around € 0.3 billion made to HSH Beteiligungs Management GmbH in 2016). 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 have put a corresponding considerable strain on the Bank's capital base during the restructuring period, which started in 2009.

Noticeable reduction in administrative expenses

In the first nine months of 2017, administrative expenses came to € -366 million (same period of the previous year: € -421 million). The marked drop is due to successful cost savings as part of the ongoing cost reduction programme for controllable personnel and operating expenses and reduced depreciation on property, plant and equipment. The development during the reporting period exceeds the Bank's expectations.

Personnel expenses, which decreased from € -188 million to € -167 million, were mainly affected by a further reduction in the number of employees according to plan as part of the headcount reduction. Compared to the end of 2016, the number of employees within the Group declined further by 200 to 1,964 (calculated on a full-time equivalent (FTE) basis).

Operating expenses (excluding depreciation/amortisation) came to € -184 million, compared with € -183 million in the same period of the previous year. Savings were made, in particular, by reducing building costs and other personnel-related operating expenses. The positive development in cost-cutting measures was offset in full by contrary effects relating to strategic projects, in particular (for example for the accelerated portfolio reduction). In addition, considerable expenses were still incurred to implement regulatory and accounting requirements.

Depreciation of property, plant and equipment and amortisation of intangible assets came to € -15 million (same period of the previous year: € -50 million). In the previous year, the net result had been hit considerably by write-downs to property, plant and equipment at subsidiaries, a small amount of which also had to be made in the reporting period.

Other income line items

Other operating income amounted to € 77 million (same period in the previous year: € 71 million) and largely includes income from cost reimbursements and reversals of provisions. The item also includes effects resulting from changes in scope of consolidation that were incurred in the second quarter of 2017.

The expenses for the annual contributions to the bank levy and the deposit guarantee fund in 2017 put pressure on the net result for the first nine months in the amount of € -41 million (same period of the previous year: € -56 million).

High restructuring and privatisation expenses

Earnings were adversely impacted to a considerable degree by restructuring and privatisation expenses in the amount of € -43 million (same period of the previous year: € -118 million) in connection with the burdens associated with the privatisation process (e.g. costs associated with advisory services, data rooms and audit activities). In the previous year, substantial additions to restructuring provisions had put a corresponding significant strain on earnings.

Reduction in base premium expense

The base premium expense for the second loss guarantee amounted to € -116 million in the first nine months of 2017 (same period in the previous year: € -170 million). The reduction in the base premium is attributable to the increase in the drawdown of the second loss guarantee. As part of the decision made by the European Commission on 2 May 2016, the base premium was reduced from 4% to 2.2% and the basis of calculation was changed with effect from 1 January 2016. Based on this decision, 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. Despite the drop in the guarantee premium, absolute premium payments made to the guarantor put considerable pressure on the Bank's net results.

Overall satisfactory Group net income

Overall, HSH Nordbank achieved satisfactory net income before taxes of € 201 million as at 30 September 2017 (same period of the previous year: € 183 million), which is better than the pro rata plan. The fact that the figure is higher than planned is due primarily to value clarification events relating to financial investments and the savings made with regard to administrative expenses. After deducting tax effects, the Group net result amounted to € 176 million (same period in the previous year: € 163 million).

The income tax expense line item comprised current tax income of € 12 million and deferred tax expense of € -37 million.

NET ASSETS AND FINANCIAL POSITION

Further reduction in total assets

Group total assets fell considerably in the first three quarters of 2017 to € 76,481 million, in particular, due to the accelerated reduction of legacy burdens (31 December 2016: € 84,365 million).

All key balance sheet items were lower on the assets side, with the exception of the cash reserve. The cash reserve increased to € 7,609 million compared with the previous year-end (31 December 2016: € 3,491 million). Liquidity inflows from portfolio sales and maturing securities contributed to this trend. Loans and advances to banks decreased and amounted to € 3,337 million (31 December 2016: € 4,192 million). The drop was particularly pronounced in overnight deposits at other banks. Loans and advances to customers of € 42,684 million were also significantly lower than as at the previous year-end (31 December 2016: € 50,910 million). The encouraging new business in the Core Bank was more than offset by the above-plan reduction measures in the Non-Core Bank, which also included portfolio sales.

Total loan loss provisions covering non-performing loans amounted to € 4,754 million before compensation. Including compensation effects of € 6,504 million, loan loss provisions disclosed on the balance sheet were positive at € 1,750 million (31 December 2016: € 1,142 million). The compensation item also includes compensatory claims against the guarantor HSH Finanzfonds AöR resulting from settled losses for transactions for which loan loss provisions had already been recognised. This means that there still is an overcompensation of the loan loss provisions as at 30 September 2017. The hedging effect of partial guarantee Two is shown in the "Credit derivative under the second loss guarantee" balance sheet item. The fair value of the credit derivative came to € 99 million as per reporting date (31 December 2016: € 199 million). The drop is due to the reduction in the hedged portfolio and the associated ongoing loss settlement.

Trading assets decreased to € 3,860 million (31 December 2016: € 5,433 million). In addition to the securities positions, the positive fair value of derivatives in trading assets also decreased. Financial investments dropped slightly to € 14,965 million (31 December 2016: € 15,493 million). This was due, in particular, to the winding down of securities portfolios.

On the liabilities side, liabilities to banks decreased (€ 8,761 million, 31 December 2016: € 9,501 million). In particular, the volume of call deposits with other banks was down to the level seen at the end of 2016. Liabilities to customers fell slightly to € 39,259 million (31 December 2016: € 40,172 million). There was a particular drop in liabilities repayable on demand. Securitised liabilities declined to € 13,557 million (31 December 2016: € 16,624 million). This is due to a higher volume of repayments and maturities exceeding new issue volumes. Trading liabilities comprising negative market values of derivatives also dropped to € 4,259 million (31 December 2016: € 5,981 million). The subordinated capital came to € 2,484 million, down considerably on the previous year-end (31 December 2016: € 3,536 million). This was due to maturities of profit participation capital and subordinated liabilities.

Reported equity capital increased moderately to € 5,094 million (31 December 2016: € 4,950 million). In particular, the Group net profit on the reporting date of 30 September 2017 had a positive impact.

Business volume also down

The business volume fell in line with total assets to € 83,930 million (31 December 2016: € 93,208 million). Off-balance sheet transactions also decreased: sureties and guarantees fell to € 1,840 million (31 December 2016: € 2,189 million), while irrevocable loan commitments dropped to € 5,609 million (31 December 2016: € 6,654 million).

Capital and funding

RWA AND CAPITAL RATIOS

(IN-PERIOD)¹⁾

	30.09.2017	31.12.2016
Risk assets (RWA) (€ bn)	23.8	28.6
Total capital ratio	31.6%	24.8%
Tier 1 capital ratio	23.9%	18.7%
CET1 ratio	19.2%	14.1%
CET1 ratio (full implementation of Basel III)	18.8%	13.4%
Pro-forma CET1 ratio ²⁾	16.3%	12.6%

1) In-period: ceteris paribus calculation taking full account of the balance sheet amounts as per reporting date.

2) The term "pro-forma" means that, for the items included in the reference portfolio for the second loss guarantee, the RWA are recognised in line with the credit risk rules and not in line with the rules regarding securitisation, whereas loan loss provisions that have been setup are fully recognised.

CET1 ratio at a high level, accelerated reduction of legacy burdens having a marked positive effect

In order to prepare for privatisation and potential supervisory requirements, HSH Nordbank has introduced a pro-forma CET1 ratio that excludes the regulatory relief effect of the second loss guarantee as a relevant management parameter. Taking this hypothetical assumption into account and based on underlying pro-forma RWA of € 28.6 billion (31 December 2016: € 36.2 billion), the indicative pro-forma CET1 ratio comes to 16.3%, which is considerably higher than the value of 12.6% reported as at 31 December 2016 and the ambition level of around 13%.

The in-period core Tier 1 capital ratio (CET1 ratio, based on transitional Basel III regulations, phase-in) had risen further to 19.2% by 30 September 2017 meaning that, despite the burdens resulting from the phasing-in of the transitional Basel III regulations, it was also considerably higher than the value of 14.1% reported at the end of 2016 and the level of ambition of around 13.0% set for the end of 2017.

The clear increase in capital ratios, which exceeds the Bank's expectations, is particularly due to the marked drop in RWA. The drop was higher than planned, with RWA falling by around € 4.8 billion to € 23.8 billion compared to 31 December 2016. This development is due, in particular, to the accelerated reduction of legacy burdens. In addition, the active management of currency risks and a strong EUR/USD exchange rate, which exceeded the Bank's expectations, also had a visible impact on the development of the capital ratios and the drop in RWA.

Assuming the full implementation of the Basel III rules (fully loaded), HSH Nordbank's in-period CET1 ratio increased to 18.8% compared to 31 December 2016 (13.4%).

There was no free regulatory guarantee buffer for the second loss guarantee available as at 31 December 2016 year-end nor as at 30 September 2017 (free capacity for expected and unexpected losses). Part of the regulatory burden for the federal state guarantee is reflected as a deduction from the regulatory equity capital. The equity capital deduction item amounted to approx. € 0.2 billion as at 30 September 2017, down by around € 0.4 billion as against 31 December 2016. The drop is due to the relief provided by the continued winding-down of the portfolio, also due to market portfolio sales and restructuring/the sale of non-performing commitments. The RWA attributable to the senior tranche of the federal state guarantee also decreased significantly in the first nine months of 2017 due to the active winding-down of the legacy portfolio, which made an additional contribution to the increase in CET1 ratios.

SREP requirements met

As part of 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 capital ratio was adhered to at all times during the reporting period. A CET1 capital ratio of 10.5% (phase-in), including a regulatory early warning threshold (Pillar 2 Guidance "P2G"), has applied 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").

REGULATORY RATIOS

(NOT IN-PERIOD)¹⁾

(%)	30.09.2017	31.12.2016
Total capital ratio	30.9%	24.2%
Tier 1 capital ratio	23.5%	18.5%
CET1 ratio	18.9%	13.9%
CET1 ratio (full implementation of Basel III)	18.4%	13.1%
Leverage ratio	7.8%	6.9%

1) Not in-period: regulatory disclosure pursuant to the CRR (balance sheet amounts as per reporting date only included in part).

ELIGIBLE CAPITAL(NOT IN-PERIOD)¹⁾

(€ bn)	30.09.2017	31.12.2016
Regulatory capital	7.4	6.9
thereof Tier 1 capital	5.6	5.3
thereof CET1 capital	4.5	4.0
thereof additional Tier 1 capital	1.1	1.3
thereof supplementary capital	1.8	1.6
Risk assets (RWA)	23.8	28.6
thereof risk assets counterparty default risk	20.4	23.4
Leverage exposure	71.6	77.0

1) Not in-period: regulatory disclosure pursuant to the CRR (balance sheet amounts as per reporting date only included in part)

The financial holding group, which arose as a result of the establishment of HSH Beteiligungs Management GmbH as a holding company in connection with the measures set out in the EU catalogue of conditions and commitments, has also been assigned a minimum capital ratio by the ECB as part of the supervisory process in the Banking Union, which is in line with the statutory regulations and is reviewed annually in the SREP process. In this regard, a core Tier 1 capital ratio of 4.5% plus capital buffer requirements of what is then around 5.8% in total has applied to the financial holding group since 1 January 2017. The in-period CET 1 capital ratio was 10.4% as at 30 September 2017 (31 December 2016: 6.5%).

HSH Nordbank's leverage ratio was a very solid 7.8% as at 30 September 2017 (31 December 2016: 6.9%). The development takes the increase in regulatory capital during the reporting period into account. A statutory binding minimum value for the leverage ratio has not yet been defined. With the amendment of the CRR, the leverage ratio based on the Tier 1 capital is likely to be set at a binding level of 3% for all institutions as a minimum requirement.

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

Continued refinancing successful

HSH Nordbank continued to effectively implement its funding strategy in the first nine months of 2017 by using different sources of funding. Consequently, the funding raised during the reporting period was much higher than the planned pro rata volume. In addition to bond issues in the retail segment, higher placements to institutional investors also contributed to this trend.

The Bank successfully placed a public-sector Pfandbrief in early July 2017, marking the continuation of its Pfandbrief benchmark strategy. The bond has a volume of € 500 million and a term of three years.

In the third quarter of 2017, the Bank raised further long-term USD funds via the ABF platform. By way of example, a transaction secured by corporate loans was increased by € 150 million. In addition, a new issue was concluded with a volume of USD 400 million. The transaction is secured using real estate loans and has a term of four years.

Besides the issuing activities, the level of deposits contributed to the implementation of the funding strategy. Total deposits amounted to € 27.1 billion as at 30 September 2017 (31 December 2016: € 29.7 billion). Furthermore, as at 30 September 2017, the Bank 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.

The regulatory requirements governing the liquidity ratios and the assumptions applied by the Bank as part of its forecasts were adhered to during the reporting period. The liquidity ratio as defined in the German Liquidity Regulation (LiqV) came to 1.83 as at 30 September 2017 (31 December 2016: 1.92), which is still significantly above the minimum regulatory requirements. The liquidity coverage ratio (LCR, short-term minimum liquidity ratio) reached a very good value of 200% as at 30 September 2017 (31 December 2016: 229%) and was therefore also well above the minimum requirements. The NSFR (structural liquidity ratio) of 115% as at 30 September 2017 (31 December 2016: 111%) was at the upper end of the requirements set out in the EU catalogue of conditions and commitments.

The liquidity development report as at 30 September 2017 shows a survival period in the combined stress scenario of 9 months (31 December 2016: 10 months). The regulatory requirement of one month was therefore clearly exceeded.

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 financial liabilities designated for measurement at fair value through profit or loss before the date of mandatory initial application of the Standard. HSH Nordbank has made use of this option and, since 1 January 2017, has been reporting the credit risk-induced fair value changes in its own liabilities for which the fair value option was exercised in other comprehensive income (OCI), i.e. not through profit or loss. Application shall be retrospective within the framework of the categorisation provisions set out in the valid IAS 39. As a result of the early application of the recognition provision, the effect (before taxes) from the credit risk-induced valuation of the Bank's own liabilities, which was previously recognised in the income statement, amounted to € 13 million (in cumulative terms from the previous years in retained earnings) and will be reclassified from retained earnings to the revaluation reserve (thereof credit risk-induced changes in the value of liabilities designated at fair value).

This means that as of 1 January 2017, future credit risk-induced valuation effects are no longer recognised in the income statement, but rather in other comprehensive income, i.e. not through profit or loss; accumulated contributions to earnings recognised in other comprehensive income will be recognised in equity in the revaluation reserve (thereof credit risk-induced changes in the value of liabilities designated at fair value). The valuation results from the Bank's own credit risk recognised in equity via the other comprehensive income will not be recognised through profit or loss via the income statement at any time, i.e. not even upon repayment or repurchase. In the reporting period, other comprehensive income of € 7 million (before taxes) was recognised in the revaluation reserve (thereof credit risk-induced changes in the value of liabilities designated at fair value) due to the early application of the change in disclosure.

SEGMENT RESULTS

SEGMENT OVERVIEW JANUARY TO SEPTEMBER 2017¹⁾

(€ m)		Corporate Clients	Real Estate	Shipping	Treasury & Markets	Core Bank³⁾	Non-Core Bank	Other and Consoli- dation ⁴⁾⁵⁾	Group
Total income	2017	169	150	67	500	886	61	65	1,012
	2016	177	161	102	359	799	36	-107	728
Loan loss provisions (including credit derivative)²⁾	2017	3	1	-12	1	-7	-318	3	-322
	2016	-1	-1	43	-	41	88	20	149
Administrative expenses	2017	-99	-43	-33	-66	-241	-148	23	-366
	2016	-106	-38	-42	-78	-264	-181	24	-421
Net income before taxes	2017	71	103	7	428	609	-476	68	201
	2016	64	110	87	271	532	-175	-174	183
Segment assets (€ bn)	30.9.	12	11	5	22	51	16	10	76
	31.12.								
	2016	12	11	6	19	48	22	14	84

1) Following the change in the presentation of the bank levy in the fourth quarter of 2016 and delayed effects resulting from the change in segment structure in the second half of 2016.

All in all, the changes only have a slight impact on net income before taxes. Prior-year figures as per 30 September 2016 adjusted accordingly.

2) Summary of the loan loss provisions in the lending business and hedging effect of credit derivative under the 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 includes the effects from differences in accounting.

Satisfactory net result of the Core Bank

The Core Bank, in which HSH Nordbank's strategic activities are combined, continued to forge ahead with its new business as planned in the first nine months of 2017 in what remained, in part, a very challenging environment and thus made further progress in implementing its client- and sector-based strategy.

As at 30 September 2017, the Core Bank generated net income before taxes of € 609 million, which was significantly above the pro rata plan and higher than in the same period in the previous year (€ 532 million). The good overall operating performance of all segments of the Core Bank and the realisation of unrealised gains contributed to this. The net result was hit by a temporary increase in the liquidity built up during the privatisation period. The costs incurred in this regard are recognised in the customer segments.

The total income of the Core Bank, which has increased considerably as against the same period of the previous year (€ 799 million), namely by € 87 million to € 886 million, reflects not only the new business concluded but also planned and achieved effects from the realisation of unrealised gains through sales of promissory note loans in the amount of € 356 million. In addition, the net result of the Core Bank benefited from lower loan loss provisions compared with the Non-Core Bank, namely in an amount of € -7 million (previous year: € 41 million).

The implementation of the ongoing cost reduction programme in line with the plan also contributed to the improved net result. Administrative expenses, for example, have fallen from € -264 million to € -241 million, a drop of 9% as against the same period of the previous year. The net result of the Core Bank includes € -16 million, i.e. around 13.8% of the total guarantee expense.

The Core Bank achieved a return on equity of 23.7% on the basis of this positive result (31 December 2016: 19.8%). The cost-income ratio of the Core Bank amounted to 26.8% (31 December 2016: 35.5%). Both values include effects from the realisation of unrealised gains and exceed the level that the Bank aims to achieve in the long term, also due to this aspect.

Total assets of the Core Bank increased to € 51 billion as at 30 September 2017 (31 December 2016: € 48 billion), in particular due to the increase in the cash reserve, which also reflects a temporary increase in the liquidity built up during the privatisation period, and is reported in the Treasury & Markets division. The increase is due, among other things, to maturing securities and incoming payments from portfolio sales and the invoicing of losses. The dynamic new business overall did not result in an increase in segment assets due to scheduled repayments, as well as some unscheduled repayments.

The NPE ratio decreased in the first nine months of 2017 as a result of the reduction in the NPE volume coupled with an increase in total EaD at the same time. It comes in at a low level of 1.5% in line with expectations (31 December 2016: 1.9%) and continues to reflect a solid portfolio quality.

KEY MANAGEMENT INDICATORS OF THE CORE BANK

	30.09.2017	31.12.2016 (30.09.2016)
Net income before taxes (€ m)	609	639 (532)
CIR	26.8%	35.5 % (32.9%)
RoE	23.7%	19.8 % (22.0%)
NPE ratio	1.5%	1.9%
New business (€ bn)	6.4	8.9 (5.8)

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

Segment results of 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 Corporate Clients segment generated net income before taxes of € 71 million for the first nine months of 2017 (same period in the previous year: € 64 million). This includes total income of € 169 million (same period in the previous year: € 177 million), which primarily reflects business developments in an extremely competitive environment. The slight drop is also partly due to burdens that are attributable to cost allocations in connection with the temporary increase in the liquidity built up during the privatisation period.

New business accounts for a volume of € 2.4 billion, meaning that it is down by € 0.1 billion on the result achieved in the same period of 2016. The pro rata plan amount is not achieved in full either. This is due, among other things, to developments in the project business, which is subject to seasonal fluctuations. In this respect, the Bank expects to see an increase in the fourth quarter of 2017. The corporate business paints a mixed picture: while the Trade and Food sectors have shown positive development, that is above both the plan and the previous year, the Industry and Services sectors are lagging behind this development overall. All in all, taking these aspects in the Corporate Clients segment into account, the Bank expects new business development for 2017 as a whole to be roughly on a par with the planned level.

New business and the stable existing business have resulted in a slight increase in the total loan volume as against the previous year. Structured project financing transactions have so far been concluded mainly in the transport infrastructure and data networks sectors, and steps have been taken to further intensify existing business relationships. In the wind energy sector, financing transactions have been concluded in Ireland, a market that offers further potential, in addition to projects in Germany and Finland. Entry into the Dutch market has also been successful.

The **Real Estate** segment made a significant earnings contribution for the Bank of € 103 million in the first nine months of 2017 (same period of the previous year: € 110 million). This segment has once again managed to further strengthen its good market position and once again exceed the new business expectations. Despite what remained a strong competitive environment in the third quarter, new business was increased to a total of € 3.4 billion (same period of the previous year € 3.1 billion), although a slight drop in interest margins had a moderate impact on income. The high level of market penetration in the core Northern German region was maintained. The positive development in business with Western German metropolitan regions and with international institutional investors also continued in the third quarter of 2017.

Total income amounted to € 67 million in the **Shipping** segment and was significantly below that for the same period in the previous year (€ 102 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 € 7 million as against € 87 million in the same period of the previous year and includes loan loss provisions of € -12 million (same period of the previous year: € 43 million) and guarantee expenses of € -13 million (same period of the previous year: € -12 million). All in all, the shipping market was still characterised by a challenging market environment in the first three quarters of 2017, despite a slight recovery in the container vessel and bulker sub-segments. New business with various international shipping companies with good credit ratings amounted to € 0.4 billion in the first nine months of the year, in line with the plan (same period of the previous year: € 0.2 billion).

The **Treasury & Markets** segments generated net income before taxes of € 428 million (same period of the previous year: € 271 million), which includes the effects associated with the realisation of unrealised gains in connection with the sale of promissory note loans. These also arose in connection with the optimisation of cover pools in the public sector Pfandbrief business. The client business, excluding syndication activities, continued to show positive development, reaching the previous year's level in the third quarter of 2017. The derivatives business and treasury outstripped expectations and contributed to the good operating performance. Deposit business with savings banks and institutional investors remains at a high level.

The **Transaction Banking** product division generated net income of € 18 million (previous year: € 13 million). Following the deduction of attributable costs, this particularly includes income from the use of products by customers in the deposit business, account management, the area of payment transactions, as well as in the documentary business in foreign trade and export financing. The division was thus able to make a tangible contribution to the Bank's cross-selling income. In particular, net commission income, which is strategically important to the Bank, was increased considerably year-on-year in a challenging environment. Under the Bank's internal business management policy, net income of the Transaction Banking product division is largely disclosed in line with client responsibilities, in the Core Bank's segments and, to a lesser extent, in the Non-Core Bank segment. This results in an allocation to "Other and Consolidation" in organisational terms.

Segment results of the Non-Core Bank

The Non-Core Bank bundles the largely non-performing loans which are earmarked for winding-down and reported a net loss of € -476 million on 30 September 2017, as was to be expected for structural reasons (same period of the previous year: € -175 million). The loss is due primarily to the continued winding down of the portfolio, the setting of loans to a non-accrual basis and the required additions to loan loss provisions, which could no longer be offset in full by the guarantee in the first nine months of 2017.

Total income of the Non-Core Bank amounted to € 61 million (same period in the previous year: € 36 million). Net trading income, which reflects increases in value in the credit investment portfolio in particular, made a significant contribution of € 35 million to this amount (same period of the previous year: € -38 million), with net commission income also making a contribution. The marked drop in net interest income from € 20 million in the same period of the previous year to € -4 million as at 30 September 2017 is due first and foremost to a drop in the interest-bearing loan volume.

Net income before taxes was negatively impacted, in particular, by very high loan loss provision expense of € -445 million (same period of the previous year: € -968 million). Loan loss provisions recognised mainly for shipping loans and the energy wind-down portfolio were compensated for in the guaranteed portfolio by the guarantee up to its full balance sheet utilisation. Taking into account the compensation, which also includes positive effects from losses invoiced, foreign exchange rate effects, as well as the hedging effect of the credit derivative, loan loss provisions in the Non-Core Bank amounted to € -318 million after the effect of the guarantee (same period of the previous year: € 88 million), meaning that they are mainly responsible for the loss reported by the Non-Core Bank.

Administrative expenses came to € -148 million (same period of the previous year: € -181 million) and include € -6 million in write-downs to property, plant and equipment at subsidiaries (same period of the previous year: € -26 million) in connection with the market transactions that were executed. The expense for the second loss guarantee amounted to € -101 million (same period of the previous year: € -153 million). This means that around 87.1% of the total guarantee expense is attributable to the Non-Core Bank. The expenses for bank levy and deposit guarantee fund amounted to € -9 million (same period of the previous year: € -16 million).

The total assets of the Non-Core Bank fell considerably to € 16 billion as at 30 September 2017 due to the reduction in the portfolio (31 December 2016: € 22 billion). This is due, in particular, to the accelerated reduction of legacy burdens.

The NPE ratio in the Non-Core Bank is still very high for structural reasons, despite the significant reductions in legacy burdens to date. Due to the disproportionate reduction in the NPE volume, the ratio fell considerably in the third quarter of 2017 to 58.8% (31 December 2016: 63.6%). The improvement in the NPE ratio of the Non-Core Bank already exceeds the Bank's expectations as at 30 September 2017 and will show stable development in line with expectations in the period leading up to the end of the year based on additional reductions in legacy burdens. The coverage ratio amounted to 54.9% (31 December 2016: 47.7%) and reflects solid risk coverage in the NPE portfolio on the whole. The Bank expects to see a coverage ratio that is largely unchanged for the year as a whole. In the shipping portfolio of the Non-Core Bank, the coverage ratio has risen from 59.2% as at 31 December 2016 to 62.2% as at 30 September 2017.

KEY MANAGEMENT INDICATORS OF THE NON-CORE BANK

	30.09.2017	31.12.2016 (30.09.2016)
Net income before taxes (€ m)	-476	-299 (-175)
NPE ratio	58.8%	63.6%
Coverage ratio	54.9%	47.7%
Total assets (€ bn)	16	22

“Other and Consolidation” division

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 income taxes amounted to €68 million as at 30 September 2017 (same period in the previous year: € –174 million) and contain charges to total income and restructuring expenses in the amount of € –43 million (same period of the previous year: € –118 million) incurred in connection with the planned headcount reduction and planned privatisation. Gains realised on disposals totalling €58 million resulting largely from disposals of non-strategic share stock as well as the management of liquidity and capital positions had a positive impact on net income.

The segment assets of “Other and Consolidation” mainly include the liquidity reserve. Segment assets as at 30 September 2017 came to €10 billion (31 December 2016: €14 billion). The drop is consistent with the increase in segment assets in Treasury & Markets and is related, in particular, to liquidity management measures and the EUR/USD exchange rate changes.

OUTLOOK

The following section should be read in conjunction with the other sections in this financial information and the Group Management Report in HSH Nordbank's Interim Report as at 30 June 2017. The forward-looking statements contained in this financial information are based on assumptions and conclusions based on information currently available to the Bank at the time the report was prepared. The statements are based on a series of assumptions that relate to future events. The occurrence of future events is subject to uncertainty, risks and other factors, many of which are beyond HSH Nordbank's direct control. Therefore, actual events may differ from the following forward-looking statements below.

Privatisation process and earnings forecast

The next months will be influenced to a considerable degree by the ongoing privatisation process. The Bank is well prepared and can benefit from an overall favourable macroeconomic environment as it embarks on the decisive phase of privatisation. As things stand at the moment, the Bank expects a purchase agreement on the sale of HSH Nordbank as a whole to be concluded by 28 February 2018.

The receipt of the binding offers marks a key milestone on the path towards privatisation. The federal state owners and the Bank believe that the offers provide a solid basis for negotiation and, in the Bank's view, show that the potential new owners are looking at the Bank and its potential from what is clearly a forward-looking perspective.

The Bank laid the foundations for this in the period under review. Operating developments in line with the plan and the cost optimisation achieved are contributing to this solid foundation, as is the marked acceleration in the moves to reduce legacy burdens, which the Bank will continue to forge ahead with in a targeted manner in light of the positive economic environment. By the end of 2018, the Bank expects the NPE volume of the Non-Core Bank to amount to around € 2 billion following the recognition of loan loss provisions, and expects it to be wound down in the course of privatisation. Key management indicators that are at a good level overall and, in particular, the high capital ratio, even leaving the second loss guarantee out of the equation, also considerably increase the likelihood of successful privatisation. As far as the second loss guarantee is concerned, it is currently assumed that it will be monetised in the course of privatisation process, which will improve the Bank's regulatory capital structure. As a result, the Bank is increasingly confident that it will be able to successfully transform the Bank from a public-sector institution into a Bank with a private shareholder structure.

There are, however, also challenges associated with the future development of HSH Nordbank. In summary, these mainly include risks associated with the adverse development of the privatisation process, even though this is becoming less likely, potential setbacks relating to the recovery in container vessels and bulkers and a further deterioration in the tanker segment, the low interest rate level and a highly competitive environment, volatility on the financial and foreign exchange markets (in particular US dollars), changes in the ratings awarded by the rating agencies and, last but not least, the constant increase in European banking regulatory requirements. It is also extremely important that, despite a multitude of influencing factors (e.g. discretionary decisions on the part of the banking supervisory authorities, assumed long-term recovery of the shipping markets, potential losses in connection with the accelerated winding-down of the portfolio), 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 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 a negative impact.

In connection with the privatisation process, there are other risks in addition to the general challenges associated with this sort of process, in particular risks relating to the viability review to be performed by the European Commission, the transition from the public-sector to a private deposit guarantee scheme, parliamentary involvement and the ownership control procedure implemented by the supervisory authorities. In this extremely complex privatisation process, the Bank will continue to do its utmost to support its owners, who are responsible for the sales process. The Bank's aim is to bring a change in ownership that makes sense from a financial perspective to a successful conclusion.

It is expected with respect to the regulatory effectiveness of the second loss guarantee 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 were notified of this. In this respect, the Bank expects to be able to report a pro-forma CET1 ratio by the end of 2017 that is above the ambition level of 13.0% with a calculation based on hypothetical assumptions and excluding the regulatory relief effect of the second loss guarantee (for explanatory information, see the section entitled "Capital and funding"). Irrespective of this, the Bank assumes that the guarantee will be materialised in the course of the privatisation process, improving the regulatory capital structure.

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 in the context of the realignment. For 2017 as a whole, the Bank is confirming all of the forecasts for key management indicators set out in the interim report as at 30 June 2017 based on the planned results and those that have already been achieved by 30 September 2017, and still expects – subject to any conclusions from the privatisation process not known today – to achieve a positive net result that is on a par with the prior year at Group level. A moderate year-on-year increase in net income before taxes and a further noticeable improvement in the return on equity are expected for the Core Bank in 2017. The expected net income before taxes of the Non-Core Bank will continue to drop considerably as against the previous year. This is due, in particular, to the planned loan loss provisions based on a full balance sheet utilisation of the guarantee, which will be partially offset by the realisation of unrealised gains in the Core Bank. 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 in 2020 at the earliest.

In order to meet 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 interim management report as at 30 June 2017 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 and significant group companies is 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 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. In this context, the binding offers received for the Overall Bank on 27 October 2017 constitute a solid base. Should the divestment procedure or the con-

tract negotiations based on these binding offers for the Overall Bank 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 fund outflows, additional measures 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, in the course of the privatisation process, extensive sales of loan portfolios, particularly in the Non-Core Bank, are required over and above the accelerated winding-down of the portfolio, then this could result in noteworthy additional loan loss provision expenses that are not compensated for by the guarantee and could require the 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 noteworthy additional loan loss provision expenses and the material depreciation of deferred taxes (for example in the scenario mentioned above or in connection with the accelerated winding-down of the portfolio) or if the recovery on the shipping market that has been assumed in the Bank's corporate planning and that is now emerging earlier than planned in light of current market developments does not materialise as planned, it could put considerable pressure on the capital ratios. If the capital ratios fall below the minimum capital requirements, a development that is not expected based on the current capital ratios, then 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, this 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 in HSH Nordbank's Interim Report as at 30 June 2017.

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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 29 November 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.

