

CREDIT OPINION

14 December 2018

 Rate this Research

RATINGS

hsh portfoliomanagement AöR

Domicile	Germany
Long Term Rating	Aa1
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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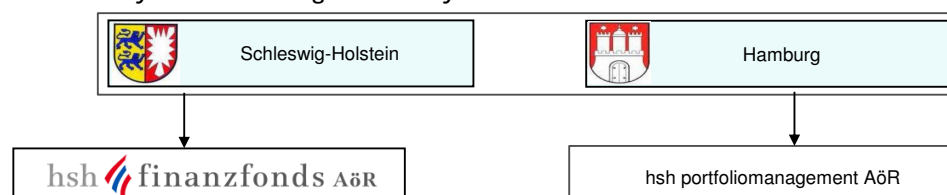
Update to credit analysis

Summary

The credit profile [hsh portfoliomanagement AöR](#) (PM; Aa1 stable) reflects the full, unconditional and irrevocable guarantee on its outstanding debt provided by two German Laender (regions; Land of Hamburg and Land of Schleswig-Holstein; both unrated). Together with [hsh finanzfonds AöR](#) (FinFo; Aa1 stable), the entity was set up by its owners to support the restructuring of [HSH Nordbank AG](#) (HSH; long-term debt rating: Baa2, stable; BCA: ba2); (see Exhibit 1).

Exhibit 1

Debt issued by FinFo and PM is guaranteed by two German Laender



Source: Issuer, Moody's Investors Service

Credit Strengths

- » Direct credit linkage with two German regions due to a full, unconditional and irrevocable guarantee on all outstanding debt
- » Public sector legal status, including deficiency guarantee (Gewährträgerhaftung) and maintenance obligation (Anstaltslast) under German public law
- » Systemic support under the German legal framework regulating wind-down entities and strong supervision by its owners

Credit Challenges

- » Exposure to asset prices and refinancing risk

Rating Outlook

The outlook is stable. This reflects the outlook on the guarantors' credit strength, as well as the assumption that the entities will not issue debt that is not guaranteed.

Factors that Could Lead to an Upgrade

- » The rating could be upgraded in the event of an improvement in both guarantors' credit strength

Factors that Could Lead to a Downgrade

- » Weakening of guarantors' credit strength
- » Issuing of unguaranteed debt
- » Any weakening of the guarantee or of hsh portfoliomanagement AöR's legal status

Profile

hsh portfoliomanagement AöR is a public sector special purpose entity established in 2015 under regional law by two German Laender, Land of Hamburg and Land of Schleswig-Holstein, which serve as its owners (50% each; severally on a pro-rata basis). The setup of the entity is in line with federal law (capital market stabilization fund law; FMStFG) and hence is supervised by Germany's Financial Supervisory Authority (BaFin).

The entity's purpose is to take over and wind-down a portfolio of non-performing loans from HSH Nordbank AG as part of the bank's restructuring process. Initially in 2016, a portfolio of non-performing shipping loans was taken over at a price of EUR2.4 billion. To fund the purchase of HSH's non-performing assets, the entity is entitled to issue fully, unconditionally and irrevocably guaranteed debt (backed by both Laender on a pro-rata basis) in the capital markets.

Detailed Credit Considerations

The credit profile of hsh portfoliomanagement AöR, as expressed in its Aa1 stable rating, is derived from our view that it is not meaningful to distinguish between the entity and the two guarantors. As such, the entity's ratings are derived from the credit strength of the support providers.

Direct credit linkage with two German regions due to a full, unconditional and irrevocable guarantee on all outstanding debt

The two German Laender, Land of Hamburg and Land of Schleswig-Holstein, both together and on a pro-rata basis (50% each) have set up the entity by law. As described in the law and state treaty, they provide a full, unconditional and irrevocable guarantee for all debt of the entity. We therefore link the credit risk of the entity with that of the Laender.

In 2017, the entity has established both, a EUR 2 billion debt issuance programme (DIP) and a EUR 1 billion commercial paper (CP) programme to fund itself in capital markets.

Hamburg and Schleswig-Holstein are located in the north of Germany. Hamburg has an exceptionally strong economy and strong demographics, while Schleswig-Holstein's gross domestic product (GDP) per capita remains somewhat below the German average. Schleswig-Holstein reported a sound financial surplus of 5% of total revenues, compared with Hamburg's 7%, in 2017. Hamburg had a direct debt level of 157% of operating revenues in 2017, slightly above the sector average. Schleswig-Holstein's direct debt level was somewhat higher at 218% of operating revenues. If we included indirect debt, predominantly guarantees for hsh finanzfonds AöR and hsh portfoliomanagement AöR, but also other non self-supporting debt of government-owned entities, both regions would have net direct and indirect debt ratios well above the sector average.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Public sector legal status, including deficiency guarantee (Gewährträgerhaftung) and maintenance obligation (Anstaltslast) under German public law

As a public sector entity, hsh portfoliomanagement AöR benefits from a maintenance obligation (Anstaltslast) and a deficiency guarantee obligation (Gewährträgerhaftung) provided by its public shareholders, as well as explicit guarantees on its debt.

The so-called maintenance obligation (Anstaltslast) is a general principle of German law stipulating that the owner of a public law institution (Anstalt) is obliged to secure its economic basis, to keep it functioning for the complete duration of its existence, and to cover possible financial gaps through subsidies or other appropriate means. Bankruptcy is practically impossible.

The so-called deficiency guarantee obligation (Gewährträgerhaftung) is not considered a general principle of law, but requires an explicit legal basis. It is defined as a direct liability, based on statute or by-laws, on the part of a regional authority or an association under public law with respect to the creditors of a public law institution for all of its obligations. The deficiency guarantee obligation creates the obligation for the guarantor to intervene in the event of insolvency or liquidation of the public law institution. It creates direct claims by the creditors of the public law institution against the guarantor, who can, however, only be called in if the assets of the public law institution are not sufficient to satisfy the creditors. The deficiency guarantee obligation is limited neither in time nor in amount.

The entity benefits from additional liquidity support because the two Laender have taken preventive legislative measures which will allow them to provide liquidity to the entity if required. Hence, liquidity should not be a concern for the entity.

Systemic support under the German legal framework regulating wind-down entities and strong supervision by its owners

Hsh portfoliomanagement AöR was established in 2015 to stabilize HSH Nordbank AG, and by the same token to stabilize the capital markets. Germany's capital market stabilization fund law (FMStFG §8b), a federal law, explicitly applies to hsh portfoliomanagement AöR. The entity is therefore subject to supervision by Germany's Financial Markets Supervisory Authority (BaFin). As the entity is established by the two Laender, supervision and control is predominantly the responsibility of their governments and parliaments.

Exposure to asset prices and refinancing risk

The final cost, which would crystallize on the Laender balance sheet and increase their debt level, depends on the successful wind-down of hsh portfoliomanagement AöR's portfolio. Asset prices will have an impact on the entity's financial situation. Over the wind-down period, the entity will need to refinance itself in the capital markets, which exposes it to refinancing risk. In terms of assets, a portfolio of non-performing loans was transferred to hsh portfoliomanagement AöR at a price of EUR2.4 billion. This triggered a loss for HSH Nordbank AG, which was covered by a guarantee from hsh finanzfonds AöR. Since then, additional write-downs on this portfolio, have materialised in losses for hsh portfoliomanagement AöR.

Rating methodology

We consider the entity to be a government-related issuer (GRI). From a credit risk profile perspective, it is not meaningful to distinguish between the entity and the two guarantors. As such, the entity's ratings are derived from the credit strength of the support providers, as described in Moody's rating methodology for government-related issuers, entitled "[Government-Related Issuers](#)", published in June 2018. For assigning ratings on guaranteed debt, we additionally apply the rating methodology for Credit Substitution, entitled "[Rating Transactions Based on the Credit Substitution Approach: Letter of Credit-backed, Insured and Guaranteed Debts](#)", published in May 2017.

Ratings

Exhibit 2	
Category	Moody's Rating
HSH PORTFOLIOMANAGEMENT AOR	
Outlook	Stable
Issuer Rating	Aa1
Bkd Senior Unsecured	Aa1
ST Issuer Rating	P-1

Source: Moody's Investors Service

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