

HSH portfoliomanagement AoeR

Key Rating Drivers

Rating Derivation Summary: Fitch Ratings views HSH portfoliomanagement AoeR (HSH PM) as a government-related entity (GRE) of the two German States of Hamburg (Hamburg: AAA/Stable/F1+) and Schleswig-Holstein (AAA/Stable/F1+) based on the unconditional, irrevocable and unsubordinated guarantee of two states on HSM PM debt, and Fitch expectations of prompt extraordinary support if needed, owing to a deficiency guarantee (Gewährträgerhaftung) and maintenance obligation (Anstaltslast) from both states,.

Ratings Equalisation: HSH PM's ratings are equalised with those of Hamburg and Schleswig-Holstein under Fitch's [Government-Related Entities Rating Criteria](#) as per the overriding single equalisation factor of the unconditional, irrevocable and unsubordinated guarantee issued by the two states. Both guarantors are equally and severally, but not jointly, liable. The guarantees are issued for an indefinite period under German law.

Business Purpose: HSH PM debt-funded the acquisition of HSH's risk positions, consisting of a largely non-performing loans (NPL) portfolio of ship credits with a gross value of EUR4.2 billion for a price of EUR2.4 billion of HSH Nordbank AG (HSH; now Hamburg Commercial Bank AG), which at end-2019 accounted for a book value of EUR1.4 billion (gross value of EUR3.43 billion).

Its portfolio is currently refinanced by bonds (USD1 billion and EUR400 million) and short-term funding is ensured via its commercial paper programme and credit facilities with banks. The funding volume is likely to decrease in line with the maturity and reduction of the NPLs.

Equity Deficit Covered by Owners: HSH PM's equity deficit (2019: EUR540 million) results from a loss in 2016; following its funding purpose and mission, proceeds received for the acquisition of the ship portfolio were below the portfolio amount. This was EUR4.2 billion, while the maximum amount approved by the European Commission to comply with EU competition law was EUR2.4 billion. We expect HSH PM's owner to cover this deficit.

Operations: HSH PM manages the NPLs, aiming to minimise losses. Next to the natural decline of the portfolio, HSH PM receives the interest revenue of performing credits and is looking for opportunities to either purchase credits or put them to early redemption. In case the estimated net present value of the losses of a specific credit exceeds the losses of an early redemption, HSH PM may decide to terminate such credits.

HSH PM's main revenue sources is interest revenue. This stems from the credits, and money market transactions usually exceed HSH PM's funding costs. There is some volatility on HSH PM's interest results, based on current market rates, interest revenue receivables and the portfolio restructuring's performance. The other main revenue source is provisions and, in particular, restructuring fees.

ESG Considerations: ESG issues have a minimal impact on HSH portfoliomanagement AoeR's ratings, as reflected in a score of '3'.

Rating Sensitivities

Change in the Laender's Rating: A change of the ratings of Hamburg or Schleswig-Holstein would be mirrored in the ratings of HSH PM.

An adverse change of an important institutional feature (solidarity principle, equalisation system, liquidity-exchange mechanism) would result in a review of the German Laender ratings and in turn, of the issuer's ratings.

Change of Legal Status or Guarantee Scheme: Any change to the legal status of HSH PM or the existing guarantee scheme will also result in a review of the ratings.

Ratings

Foreign Currency

Long-Term IDR	AAA
Short-Term IDR	F1+

Local Currency

Long-Term IDR	AAA
Short-Term IDR	F1+

Outlooks

Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable

Issuer Profile

HSH portfoliomanagement AoeR was founded as a public law institution pursuant to a state treaty on 22 December 2015 by the two German states of Hamburg and Schleswig-Holstein for the acquisition, profit-oriented realisation and liquidation of non-performing loans and non-strategic business units of the former HSH Nordbank AG. This move was aimed at stabilising the bank and supporting the stabilisation of the capital markets.

Financial Data

HSH portfoliomanagement AoeR

(EURm)	2018	2019
Operating revenue	10.5	2.3
Interest revenue	70.6	62.7
Net results	15.0	-5.3
Net adjusted debt	2,096.0	2,019.3
Total assets	1,568.0	1,483.1

Source: Fitch Ratings, HSH portfoliomanagement AoeR

Applicable Criteria

[International Local and Regional Governments Rating Criteria \(October 2020\)](#)

[Government-Related Entities Rating Criteria \(September 2020\)](#)

Related Research

[Fitch Affirms 11 German Laender at 'AAA'; Outlook Stable \(April 2020\)](#)

[State of Hamburg \(October 2020\)](#)

[State of Schleswig-Holstein \(October 2020\)](#)

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Appendix A

HSH portfoliomanagement AoER

(EURm)	2016	2017	2018	2019
Income statement				
Interest revenue	20.1	36.2	70.6 ^a	62.7
Interest expenditure	-19.6	-35.6	-37.1	-39.5
Net interest income	0.5	0.6	33.5	23.2
Other operating income ^b	0.0	1.8	10.5	2.3
Personnel expenses	-2.2	-5.9	-6.6	-6.2
Other operating expenses ^c	-33.5	-38.3	-22.3	-19.2
Net operating income/(loss)	-35.2	-41.8	15.1	0.1
Provisions	-470.1	-2.5	-0.1	-5.4
Profit (loss) before tax	-505.3	-44.3	15.0	-5.3
Taxation	0.0	0.0	0.0	0.0
Net profit (loss)	-505.3	-44.3	15.0	-5.3
Balance sheet				
Assets				
Cash and cash equivalents	66.7	57.2	77.7	43.6
Deposits with banks	15.5	50.0	5.9	7.3
Other earning assets	25.5	0.0	0.0	0.0
Long-term investments (NPLs)	2,012.6	1,643.5	1,479.9	1,426.9
Fixed assets	0.3	0.4	0.8	0.9
Intangible	0.0	0.0	0.2	0.2
Other long-term assets	0.3	3.6	4.2	4.3
Total assets	2,120.9	1,754.7	1,568.0	1,483.1
Liabilities and equity				
Short-term borrowing	2,351.8	639.4	0.0	138.6
Other short-term liabilities	250.8	0.3	0.1	0.0
Debt maturing after 1 year	0.0	1,635.5	2,096.0	1,880.7
Other long-term funding	9.3	5.5	3.3	1.7
Other provisions and reserves	0.0	0.0	2.8	2.1
Equity	-505.3	-549.8	-534.6	-540.2
Reserves	9.3	5.8	0.4	0.2
Total liabilities and equity	2,120.9	1,754.7	1,568.0	1,483.1

^a 2018 increase was driven by pending interest revenue and successful restructuring of credits

^b largely made of rebate of third-party costs

^c driven by outsourced administrative costs

Source: Fitch Ratings, HSH portfoliomanagement AoER

Appendix B

HSH portfoliomanagement AoER

Ratio analysis	2016	2017	2018	2019
Performance				
Interest expense/borrowings and deposits (%)	0.8	1.6	1.8	2.0
Net interest income/earning assets (%)	0.5	0.6	40.1	45.6
Net operating income/net interest income and other operating revenue (%)	-7,040.0	-1,741.7	34.3	0.4
Net operating income/equity and reserves	7.1	7.7	-2.8	-0.1
Net operating income/total assets (%)	-1.7	-2.4	1.0	0.1
Credit				
Growth of assets (%)	0.0	-17.3	-10.6	-5.4
Liquidity and funding				
Long-term debt/total equity and reserves (%)	0.0	-304.0	-392.4	-348.3
Liquid assets/total assets (%)	3.1	3.3	5.0	2.9
Total deposits and debt/total assets (%)	111.6	131.0	133.9	136.3
Liquid assets/short term deposits and borrowing (%)	2.8	9.0	0.0	31.5
Capitalisation				
Equity and reserves/total assets (%)	-23.4	-31.0	-34.1	-36.4
Net profit/total equity and reserves (%)	101.9	8.1	-2.8	1.0

Source: Fitch Ratings, HSH portfoliomanagement AoER

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