portfoliomanagement

SCHLESWIG-HOLSTEIN · HAMBURG

ANNUAL REPORT 2020

portfoliomanagement

SCHLESWIG-HOLSTEIN · HAMBURG

TABLE OF CONTENTS

ANNUAL REPORT 2020

This is an English translation of the original German version of the Annual Report. We would like to point out that the translation is non-binding and for conveniance only and that only the original German version of the audited Annual Report is authoritative.

KEY FIGURES[1)]

Portfolio

in EUR million	31 Dec. 2020	31 Dec. 2019	Change	Change in %
Outstanding loan amount	2,901	3,293	-392	-11.9
Carrying amount	992	1,427	-435	-30.5

- The outstanding loan amount refers to the amounts due from customers, comprising outstanding loan principal and outstanding interest receivables. The decrease is mainly due to principal repayments and loan losses and would have been around EUR 266 million lower without the weakening of the US dollar against the Euro.

- The carrying amount as at 31 December 2020 was EUR 992 million. The decline compared to the previous year's reporting date was mainly due to repayments with a simultaneous moderate increase due to liquidity support, significant additions to risk provisions and a currency-related significant reduction in the carrying amount due to a weaker US dollar.

Results of operations

in EUR thousand	1 Jan.–31 Dec. 2020	1 Jan.–31 Dec. 2019	Change	Change in %
Net interest income	26,707	22,957	3,751	16.3
Net commission income	-34	138	-172	>-100
Other comprehensive income [*)]	1,640	2,283	-643	-28.2
Personnel expenses	-5,849	-6,200	351	-5.7
other administrative expenses	-12,564	-18,824	6,260	-33.3
Net result from loan loss allowances and provisions	-243,622	-5,330	-238,292	>100
Net loss for the year	-234,625	-5,505	-229,120	>100

[*)] without result from foreign currency translation

- The increase in net interest income is due to reduced interest income compared to the previous year and, in contrast, strongly reduced interest expenses incurred in connection with funding.

- There was also a decline in net commission income at a low level. While commission expenses were slightly below the previous year's level, the commission income received fell comparatively more sharply in the same period.

- Under other comprehensive income, there were significantly fewer legal fees charged to clients, but the underlying costs were also significantly lower.

- Compared to the previous year, personnel expenses decreased noticeably. The average number of full-time employees in 2020 was 49.5 (previous year: 55.6 full-time employees).

- Other administrative expenses mainly include costs for significant outsourcing, legal advice and support for ongoing business operations.

[1)] Figures taking into account rounding differences

- The significantly improved net interest and commission income and greatly reduced general administrative expenses show an improved result before loan loss allowances and provisions and revaluation compared to the previous year.
- The net result from loan loss allowances and provisions was significantly worse than in the previous year. This was due in particular to the high allocations to value adjustments required in the second quarter of 2020 as a result of the pandemic. From the third quarter onwards, there was a recovery in the shipping markets.
- Burdened by the very high net allocations to risk provisions, the business year closed with a substantially increased net loss compared to the previous year.

Net assets

in EUR thousand	31 Dec. 2020	31 Dec. 2019	Change	Change in %
Loans and advances to customers	991,794	1,426,917	-435,123	-30.5
Liabilities to banks	0	138,581	-138,581	-100.0
Debt securities issued	1,861,938	1,880,658	-18,720	-1.0
Total assets / equity and liabilities	1,865,268	2,023,345	-158,077	-7.8

- Loans and advances to customers correspond to the carrying amount of the portfolio as shown above.
- Liabilities to banks were repaid in full by the issuance of securitised debt.
- In addition to the US dollar issues and Euro debt securities placed on the capital market, there were also short-term securities (ECP programme) in Euros and US dollars in the portfolio at the end of 2020.
- The balance sheet total is essentially determined by the loan portfolio and the associated funding.

Ratings

	Short term	Long term
Moody's Investors Service (last confirmed on 12 February 2021)	P-1	Aa1
Fitch Ratings (last confirmed on 27 November 2020)	F1+	AAA

- Due to the guarantees of the sponsors, the very good ratings awarded to portfoliomanagement have remained unchanged since October 2016.

Employees

	31 Dec. 2020	31 Dec. 2019	Change	Change in %
Full-time employees	47.6	51.6	-4.0	-7.8

- As a result of the ongoing portfolio reduction, the number of employees declined in the past financial year.

EXECUTIVE BOARD

FOREWORD BY THE EXECUTIVE BOARD

Ladies and Gentlemen,

In 2020, we were able to further optimise the loan portfolio and reduce it as planned. The operating result at the end of the financial year was also significantly better than planned. However, the very high net loss for the year – due to the high allocations to value adjustments required in the second quarter of 2020 as a result of the pandemic – could only be compensated for to a small extent by the good interest result and the considerably reduced administrative expenses.

The outstanding loan amount at the end of the year was EUR 2,901 million – a decrease of EUR 392 million (-11.9%) compared to the previous year. The decrease in loans and advances to customers as at the balance sheet date was primarily attributable to principal repayments and loan losses. The carrying amount as at 31 December 2020 was EUR 992 million. The drop of EUR 435 million (-30.5%) compared to the previous year's reporting date was mainly due to value adjustments and principal repayments and the reduction in receivables.

Our 2020 financial year was primarily influenced by the Covid-19 pandemic. The negative economic developments caused by the slump in world trade led to massive distortions on the shipping markets in the first half of the year. The individual segments were affected by the global containment measures in different ways, with the container and tanker markets in particular showing quite significant, but also completely divergent, reactions.

For container shipping – the crucial segment for portfoliomanagement – 2020 was an extremely remarkable year. After charter rates came under considerable pressure in the first half of the year and were at times close to historic lows, there was a sustained dynamic and unexpectedly fast and strong recovery of charter rates in the segment during the third and especially the fourth quarters. Overall, however, the development in 2020 as a whole and thus the performance of the portfolio made it necessary to make a considerable addition to risk provisions.

The signs point to a continuing positive market environment in container shipping, at least for the first half of 2021. As vaccines become more widely available and pandemic-related restrictions are eased worldwide, global demand is also expected to recover further. Private consumption is expected to catch up after restrictions during the long lockdown phases. This should mean robust demand for container tonnage. The charter rates and second-hand prices of the container ships financed by portfoliomanagement would also benefit from this, which would ultimately enable the release of risk provisions.

From today's perspective, some declines from the currently very high level could be expected from mid-2021 onwards. As a result, this should lead to correspondingly weaker charter rates and second-hand prices in the course of the year, although they should remain well above the average level of recent years thanks to good fundamentals.

The Moody's and Fitch ratings (Aa1 and AAA) were also confirmed in 2020. Together with the guarantees of the sponsoring states, these ratings again ensured that funding was comfortably secured at all times in the past financial year.

portfoliomanagement started the year 2021 with 144 ships as collateral. This means that the number of ships in the portfolio fell by ten in the past financial year, a reduction of 43% since the institution was established.

While the 2019 planning still showed a flattening wind-down path, the 2020 resolution plan shows an adjustment to more short- and medium-term disposal scenarios. We will take advantage of the improved market conditions expected compared to the previous year to further reduce the portfolio where possible. As expected, the associated significant decline in the interest result will not be compensated for by cost reductions, so that we forecast a significantly reduced positive operating result.

portfoliomanagement has been in the wind-down phase since past year. Due to the planned accelerated wind-down of the portfolio, the original forecast for the wind-down period of ten years has probably been shortened by about two years. The loss of a longer-term perspective makes it all the more challenging for us to motivate our competent and willing employees for the remaining years so that they will complete the wind-up mission together with us.

An exceptional year lies behind us, in which we were once again able to rely on our colleagues. Our mission and our good digital equipment made it possible for us to encourage staff to work from home at an early stage. This has worked perfectly so far and we would particularly like to thank our staff for their cooperation in this respect this year.

All our assessments and forecasts for the year 2021 – despite all our confidence – remain uncertain in view of the uncertain course of the pandemic. However, the current extraordinary market situation in container shipping will provide an extremely positive impetus, which will enable us to focus on a new phase, which should also improve the results of portfoliomanagement.

Kiel, dated 24 March 2021

Ulrike Helfer
Member of the Board of Managing Directors

Dr. Karl-Hermann Witte
Member of the Board of Managing Directors

20

PORTFOLIOMANAGEMENT – OUR NAME REFLECTS WHO WE ARE AND WHAT WE DO.

Dr. Karl-Hermann Witte and Ulrike Helfer,
Members of the Board of Managing Directors

ADVISORY BOARD

REPORT OF THE ADVISORY BOARD

The Advisory Board fulfils its responsibilities as the supervising body of hsh portfoliomanagement AöR in accordance with the rights and obligations incumbent upon it under the law and the institution's Statute. Furthermore, it performs its responsibilities in accordance with the Federal State of Schleswig-Holstein Corporate Governance Code and the Hamburg Corporate Governance Code.

The tasks of the Advisory Board include in particular

- approving the asset resolution plan and specifying the information to be included in the asset resolution plan
- determining the mandatory content and format of the asset resolution reports
- appointing and dismissing the members of the Executive Board
- adopting rules of procedure for the Executive Board
- appointing the auditor of the financial statements
- adopting and approving the annual financial statements

The Advisory Board of portfoliomanagement held a total of five meetings in 2020. Further resolutions were passed by circulating the documents.

At its meetings, the Advisory Board focused on the progress of restructuring and wind-down activities as well as the impact of the coronavirus pandemic on the portfolio. The Board also discussed the implementation of staff retention measures in the accelerated downsizing process that has now begun at the institution, the completion of the project to migrate service provision to IBM Deutschland GmbH, and analyses for forecasting the economic operating time of the institution.

In 2020, the members of the Advisory Board worked closely with the governing bodies of the institution in the interest of the institution. Together, they ensured that the Advisory Board had all the information it needed to fulfil its duties. The members were thus able to fully meet their obligations to advise and supervise the Executive Board in its management of the business. The Advisory Board received regular and timely oral and written reports from the Executive Board concerning the situation of the entity and key management issues in the form of well-prepared documents, in particular in the form of quarterly reports and asset resolution reports. The Advisory Board was regularly informed of further developments at portfoliomanagement and its risk-bearing capacity through the quarterly risk reports and the reports of the Internal Audit Department. As part of reviewing compliance with the Codes, the Advisory Board also scrutinised the quality and efficiency of its activities. This resulted in the Advisory Board confirming the structure and effectiveness of its working practices.

The Advisory Board received a detailed explanation of the results of the audit of the 2020 annual financial statements in the auditor's report. No objections were raised. The Advisory Board thus adopted and approved the annual financial statements and management report for the 2020 financial year prepared by the Executive Board of portfoliomanagement at its meeting on 5 May 2021.

The Advisory Board would like to thank the Executive Board and all employees of portfoliomanagement for their work in 2020.

Hamburg, dated 5 May 2021

Dr. Sibylle Roggencamp
Chairwoman of the Advisory Board

MANAGEMENT REPORT

1 FUNDAMENTAL INFORMATION ABOUT PORTFOLIOMANAGEMENT

1.1 LEGAL AND ORGANISATIONAL STRUCTURE

1.1.1 Overview

hsh portfoliomanagement AöR, Kiel, (hereinafter referred to as "portfoliomanagement") was established as an institution under Public Law with legal capacity pursuant to section 8b of the Financial Market Stabilisation Fund Act (Finanzmarktstabilisierungsfondsgesetz – FMStFG) when the State Treaty between the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein came into force on 22 December 2015. Pursuant to section 11 of the State Treaty, the structure of portfoliomanagement was specified in more detail in the Statute adopted on 19 January 2016.

portfoliomanagement is not considered to be a lending or financial services institution and does not engage in any business that requires authorisation by national or international regulatory authorities. Nevertheless, pursuant to section 8b(2) FMStFG, certain regulations of the German Banking Act (KWG), the German Securities Trading Act (WpHG) and the German Money Laundering Act (GwG) must be applied to portfoliomanagement.

The sponsors of portfoliomanagement are – with equal shares – the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein. The inaugural meeting of the Board of Sponsors took place on 19 January 2016. In addition to the adoption of the Statute of portfoliomanagement, the members of the Advisory Board and the Executive Board were appointed.

portfoliomanagement was entered in the commercial register at the Kiel District Court under HRA 9377 KI on 8 June 2016. Since 1 January 2019, the institution has been operating under the name "portfoliomanagement". In legal relations – and thus also in the commercial register – the name "hsh portfoliomanagement AöR" will remain.

1.1.2 Share capital, guarantor liability and institutional liability

portfoliomanagement currently has no share capital at its disposal. According to section 4(1) of the State Treaty, share capital can be established by resolution of the Board of Sponsors, but there are still no plans to do so.

Pursuant to section 5(1) of the State Treaty, the sponsors are jointly and severally liable to third parties for the liabilities of portfoliomanagement if and to the extent that creditors cannot obtain satisfaction from the assets of portfoliomanagement (guarantor liability).

Pursuant to section 5(2) of the State Treaty, the responsible bodies shall also ensure that portfoliomanagement remains operational as an institution for the duration of its existence (institutional liability).

1.1.3 Registered office of portfoliomanagement

The registered office of portfoliomanagement is based in Kiel. portfoliomanagement is also represented by an office in Hamburg.

1.1.4 Governing bodies of portfoliomanagement

The governing bodies of portfoliomanagement are:

- the Executive Board
- the Advisory Board and
- the Board of Sponsors

The Executive Board of portfoliomanagement consists of two members. It conducts the business of portfoliomanagement and represents it in and out of court vis-à-vis third parties.

The Advisory Board consists of four members. It is composed of representatives of the sponsors. The Advisory Board defines the corporate governance principles and monitors the business management of the Executive Board. It is also responsible in particular for

- approving the asset resolution plan
- appointing the members of the Executive Board
- appointing the auditor
- approving and formally adopting the annual financial statements
- formally approving the actions of the members of the Executive Board

The Board of Sponsors has two members. It is composed of one representative each from the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein, who are nominated by the sponsoring states. The Board of Sponsors makes decisions in particular on

- adopting and amending the Statute
- formally approving the actions of the members of the Advisory Board
- approving the annual asset resolution plan

1.1.5 Organisational structure of portfoliomanagement

portfoliomanagement is broken down into two overall areas of Executive Board responsibility (Board Departments).

Board Department I is headed by Ms Ulrike Helfer. It consists of the following units:

- Restructuring Management
- Loans
- Human Resources

Board Department II is headed by Dr Karl-Hermann Witte. It comprises the following units:

- Risk Controlling & Strategic Wind-down Planning
- Treasury & Finance
- Business Management

The Internal Audit function is also part of this Board Department. In addition, institution authorised officers (information security, money laundering, compliance and data protection) are also allocated to this Board Department for organisational and reporting purposes.

The Office of the Executive Board is assigned to both departments.

1.2 ECONOMIC BACKGROUND

Pursuant to section 2 of the State Treaty, portfoliomanagement is responsible for recovering and resolving the loan receivables taken over from HSH Nordbank AG (legal successor Hamburg Commercial Bank AG) on a profit-oriented basis under the conditions of section 8b(1) FMStFG.

The loan receivables taken over totalled around EUR 4.2 billion as at 30 June 2016. The consideration paid by portfoliomanagement for these was around EUR 2.4 billion. The purchase price had been set by the European Commission as the maximum permissible purchase price under state aid law.

In order to meet its responsibilities, portfoliomanagement was and is authorised to take out loans to fund its acquisition of risk exposures, commence operations and support ongoing business activities. The authorisation limit has been continuously adjusted and currently amounts to a maximum of EUR 3.43 billion.

In addition to the extent of the asset resolution process and the associated reduction in risk, the measure of a successful resolution for portfoliomanagement is its net resolution income. The net resolution income is derived from the purchase price paid for the acquired loan portfolio, taking into account the expenses incurred and income generated in connection with the asset resolution activities. In the case of individual lending exposures, this can also include the realisation of losses if this allows the avoidance of expected higher losses in the future. This understanding of profit-oriented recovery developed with the sponsoring states Hamburg and the Federal State of Schleswig-Holstein can also be described as a loan portfolio resolution with maximum value preservation.

1.3 INTERNAL MANAGEMENT

1.3.1 Financial key performance indicators used to achieve the strategic objectives

The aim of portfoliomanagement is to resolve the loan portfolio in a way that preserves its value. The challenge here lies in the strategic management of the portfolio of non-performing loans relating to ship financing. In particular, the borrowers' limited debt-servicing capacity makes it difficult to estimate the expected incoming payments of interest and repayments of liabilities as well as defaults. This uncertainty is taken into account in the asset resolution plan for the loan portfolio and the planning methodology is being refined continually.

portfoliomanagement has aligned the strategic management of its business activities with the asset resolution plan, which defines objectives and action to be taken for the short and medium-term resolution of the portfolio. A key performance indicator for assessing the extent to which the objectives defined in the asset resolution plan are being achieved is the reduction in the carrying amount of the loan portfolio over time, adjusted for currency effects. General administrative expenses are also a financial key performance indicator.

The changes in the financial key performance indicators is presented in the management report in sections 2.3.3 Results of operations (general administrative expenses) and 2.2.2 Asset resolution report (reduction of loan portfolio). The Executive Board informs the Advisory Board about these changes in regular reports throughout the year.

1.3.2 Non-financial key performance indicator – employees

The employees of portfoliomanagement are crucial to its success. The number of employees, measured in full-time equivalents, is the key performance indicator for personnel management purposes.

portfoliomanagement has been reducing its staff numbers since 1 July 2019. While the headcount still corresponded to 51.6 FTEs as at 31 December 2019, it was equivalent to 47.6 FTEs as at 31 December 2020. Until the portfolio is completely wound down and the institution is subsequently closed, personnel work will be characterised by a state of tension. While staff reduction must be continued gradually as the loan portfolio is progressively reduced, it is also vital to retain employees with proven expertise in core functions in portfoliomanagement so that the entity can continue to function at all times.

2 REPORT ON ECONOMIC POSITION

Quantitative data in the following chapters of the management report may contain rounding differences. The main sources on which the following explanations in the report sections 2.1 Macroeconomic environment and 3.1.1. Report on expected developments are based are Clarksons Research, the International Monetary Fund (IMF) and Howe Robinson Partners.

2.1 MACROECONOMIC ENVIRONMENT[1]

As a result of the coronavirus pandemic, global economic growth is expected to have declined by 3.5% in 2020, according to the IMF's January 2021 forecast, making it one of the worst recessions since the Great Depression of the late 1920s. Nevertheless, the intervention of central banks and governments, which supported the economy with low interest rates and massive aid programmes, prevented even stronger negative growth. In the IMF forecast of October 2020, negative growth of 4.4% was still expected.

2.1.1 Overview of the shipping markets

The coronavirus pandemic was also the dominant issue for global merchant shipping in 2020. The individual segments were affected by the global containment measures in different ways, with the container and tanker markets in particular showing quite significant, but also completely divergent, reactions. In contrast, the introduction of the global sulphur cap at the beginning of the year, which was still expected to be an important influencing factor in the previous year, receded into the background.

2.1.2 Container market[2]

For container shipping, 2020 was a quite remarkable year with large fluctuations in charter rates and second-hand prices. Over the year as a whole, the container fleet as measured in TEU grew by 2.9%. Demand declined by 1.1%. These figures alone would suggest a rather negative development of the market overall. However, a closer look revealed sharply varying developments over the year.

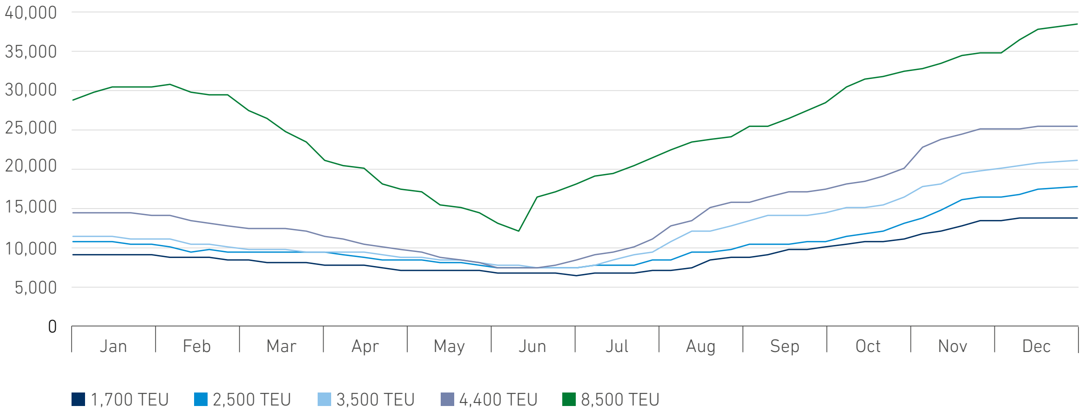
After charter rates came under considerable pressure with the outbreak of the coronavirus pandemic and the slump in world trade in the first and second quarters and were temporarily quoted close to historic lows, there was a recovery from the third quarter onwards. By the end of the year, it was even possible to record long-term highs. This recovery was first observed in the larger ships of the Post-Panamax class and gradually continued in the smaller classes. By the end of the year, feeders up to approx. 1,000 TEU were also able to participate in the recovery, albeit at a lower level than the larger ships.

This unexpectedly fast and strong recovery despite the ongoing pandemic situation is mainly attributable to the rapid recovery of global supply chains after the shock of the first half of the year had subsided. The recovery was also supported by the fact that in the first half of the year, due to the drastic slump and the thinning out of schedules, empty containers were not transported from the import regions back to the ex-

[1] International Monetary Fund, World Economic Outlook, October 2020 and January 2021.
[2] Clarksons Research Database, Clarksons Research, Container Intelligence Monthly Volume 23 No.1, 2021, and also Howe Robinson Partners, Containership Annual & Fourth Quarter Review 2020.

port regions as usual, resulting in bottlenecks in container supply. Accordingly, freight rates, i.e. the prices for transporting containers, rose particularly sharply and reached unprecedented levels on some routes.

Clarksons Container charter rates 6–12 months 2020 in US dollar per day



With the recovery of the charter market, the prices for used container ships also showed in part strong positive developments from the summer onwards and at the end of the year were generally well above the values at the beginning of the year before the outbreak of the pandemic. Second-hand prices for ten-year Post-Panamax class vessels of 8,800 TEU improved by approx. 24.6% in the course of the year. At the end of December, prices stood at USD 38.0 million. Second-hand prices for ten-year ships of the Panamax class around 4,500 TEU were even able to improve by approx. 72.7% in the course of the year; in December prices stood at approx. USD 19.0 million. In the size class around 3,200/3,600 TEU, ten-year second-hand prices rose by approx. 54.3% over the course of the year. At the end of December, they stood at approximately USD 13.5 million. In the size class around 2,500 TEU, there was a price increase of approx. 44.4% for ten-year vessels to approx. USD 13.0 million at the end of the year. In the 1,650 TEU/1,750 TEU class, prices for ten-year vessels rose by around 16.1%, ending the year at around USD 9.0 million.

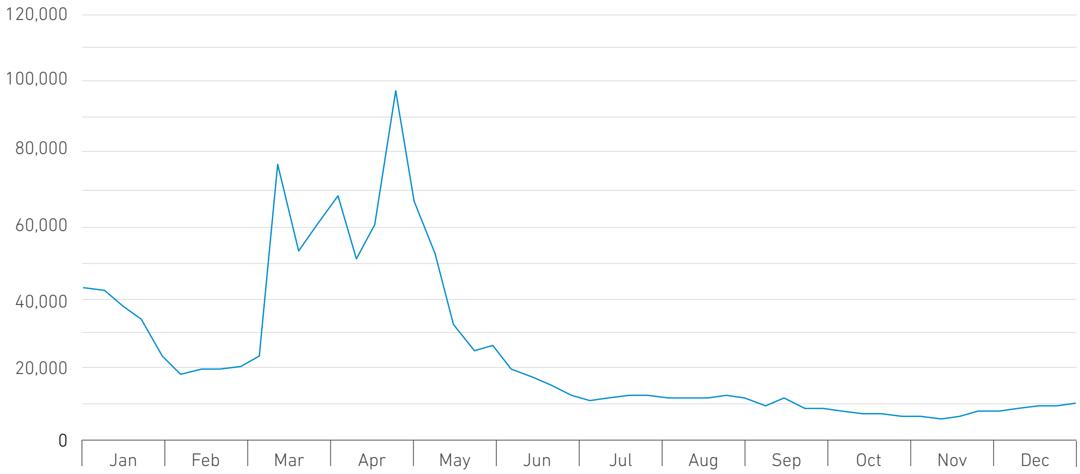
2.1.3 Tanker market[3]

The coronavirus pandemic also played a determining role in the tanker market in 2020. In the wake of the global economic slump, oil prices fell sharply, hitting a multi-year low in April. For the tanker market, however, this crash initially meant a real boom, as crude oil tankers were increasingly in demand from the end of April 2020 as floating storage capacity to temporarily store the cheaply procured raw material. Short-term spot charter rates for large tankers (VLCC), for example, reached record levels with individual deals of more than 300,000 US dollars per day. In the course of this, the charter rates of smaller tankers such as those of the product tankers represented in the portfolio of portfoliomanagement also benefited. However, the recovery there was much weaker.

As the year progressed, oil prices recovered somewhat and the tonnage bottleneck eased. In the product tanker market in particular, the reduced demand for fuel as a result of the global pandemic containment measures came increasingly to the fore. Examples include reduced travel and industrial production. Compared to the previous year, global export volumes declined by 7.5% (crude oil) and 11.2% (oil products). For product tankers, this resulted in a clearly negative demand of 10.0%. The product tanker fleet grew by 0.2% in the same period.

In the second half of the year, charter rates were only at a below-average level. By the end of the year, the product tanker market had finally come under heavy pressure. Over the year as a whole, the revenues of smaller product tankers deteriorated by around 20-30%, depending on the class.

Clarksons Average Tanker Earnings Index 2020 in US dollar per day



[3] Clarksons Research Database and Clarksons Research, Oil & Tanker Trades Outlook Volume 26 No. 1, 2021.

As a result, the prices for used tankers also fell over the course of the year by approx. 14.8% across all size classes and ages. Thus, the second-hand price level at the end of the year was approx. 8.0% below the ten-year average. Second-hand prices of ten-year Handysize product tankers fell by around 6.7% to end 2020 at around USD 14.0 million. For ten-year LR1 product tankers of 73,000 DWT, prices fell by around 10.0% to end the year at around USD 18.0 million.

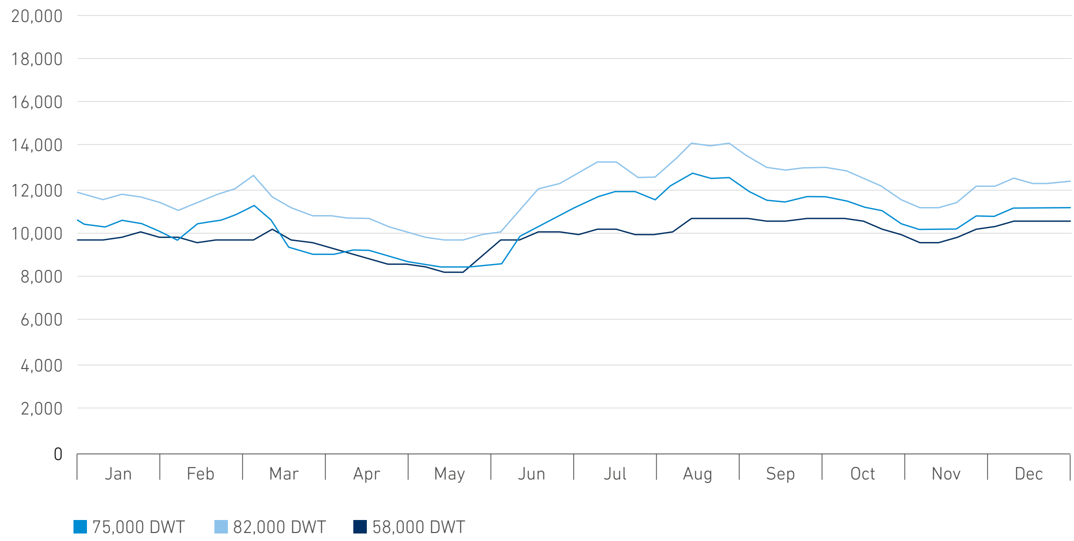
2.1.4 Dry bulk market[4]

Compared to the container and tanker markets, the situation on the dry bulk market was somewhat more stable in 2020. There was neither a drastic slump in the spring similar to that in the container segment, nor were there comparable positive swings as in the tanker segment. Only large bulk carriers of the Capesize class were subject to more significant fluctuations; however, such ships are no longer represented as collateral for portfoliomanagement's shipping loans. A stabilising factor for the dry bulk market can be seen in the fact that demand for some bulk commodities such as grain is less susceptible to economic turbulence.

Overall, the bulker fleet grew by 3.8% according to DWT, while demand declined by 2.1%.

From around May onwards, an overall positive development of the markets set in, which was mainly due to the resurgent demand for raw materials in China. For example, China's imports of iron ore, the most important bulk commodity, increased significantly by 9% in 2020.

Clarkson's bulker charter rates 6–12 months 2020 in US dollar per day



[4] Clarksons Research Database and Clarksons Research, Dry Bulk Trade Outlook Volume 27 No. 1, 2021.

Ship prices on the second-hand market developed negatively overall for bulkers in the course of the year, the consolidated Clarksons Bulker Second-Hand Price Index was approx. 10.1% lower at the end of the year than at the beginning of January. Thus, the second-hand price level at the end of the year was approx. 18.6% below the ten-year average. Second-hand prices of ten-year Handysize bulkers deteriorated by around 8.3% over the year to end 2020 at around USD 8.25 million. The price of ten-year Supramax 56,000 DWT bulkers fell by around 14.0% to end the year at around USD 10.75 million. Prices for ten-year Kamsarmax bulkers at 82,000 DWT rose by about 1.9% to end the year at USD 13.75 million.

2.2 COURSE OF BUSINESS

2.2.1 Overview

The business activity and the annual result of portfoliomanagement were characterised by the management of the loan portfolio and its performance in the 2020 financial year. The first half of the year was strongly marked by the negative impact of the coronavirus pandemic on the global economy and on the shipping markets relevant to portfoliomanagement. During the second half of the year, the general conditions – especially in container shipping, the most important ship segment for portfoliomanagement due to the volume of receivables and the number of financed ships brightened considerably in favour of the borrowers of portfoliomanagement. Furthermore, in the first half of 2020, portfoliomanagement completed the transfer of essential administrative activities to support portfolio processing to the new service provider IBM Deutschland GmbH (hereinafter "IBM") and the migration of the loan and treasury portfolios to its IT systems. This laid the foundation for a significantly reduced cost base for servicing the loan portfolio in the future.

The business performance of portfoliomanagement was strongly influenced by the coronavirus pandemic in the past financial year. A crisis team was set up at the beginning of the pandemic in order to be able to assess the impact on portfoliomanagement at any time. portfoliomanagement introduced various measures to protect its employees and business partners against infection and comply with the regulations issued by the authorities. This involved, among other things, establishing a working-from-home concept for staff with most staff working temporarily largely from home and business trips no longer taking place.

Staff also monitored the effects of uncertainties in the market environment on the loan portfolios of portfoliomanagement. In particular, they analysed the effects of the coronavirus pandemic on the market values and charter rates of the ships and the respective loan loss allowances and provisions on an ongoing basis.

The negative economic and industry developments caused by the pandemic had a significant negative impact on the shipping markets following the outbreak of the coronavirus pandemic and the collapse of world trade in the first and second quarters, which were then close to historic lows. In the first half of the year, considerable additions to portfoliomanagement's loan loss allowances and provisions were necessary. From the third quarter onwards, there was a recovery in the shipping markets. In addition, portfoliomanagement adjusted the strategic resolution plan to more short- and medium-term disposal scenarios.

In 2020, portfoliomanagement reported a result before loan loss allowances and provisions and foreign currency translation of EUR 9.8 million (previous year: EUR 0.2 million). This was mainly due to a significant increase in net interest income and net commission income to a combined total of EUR 26.7 million (previous year: EUR 23.1 million), which was offset by sharply reduced general administrative expenses of EUR 18.4 million (previous year: EUR 25.0 million) In the past year, there was a significantly negative net result on loan loss allowances and provisions of EUR -243.6 million (previous year: EUR -5.3 million), in particular due to the high allocations to provisions required in the second quarter of 2020 as a result of the pandemic. Together with a moderate net loss on foreign currency translation of EUR 0.8 million (previous year: EUR 0.4 million), this resulted in a net loss for the year of EUR 234.6 million (previous year: EUR 5.5 million). Please refer to the detailed explanations on the development of the individual result components in section 2.3.3 Results of operations.

The following paragraphs contain a discussion of earnings for the financial year as compared to asset resolution planning for 2020:

Business performance at the level of the result before loan loss allowances and provisions and foreign currency translation was significantly better than planned in 2020. The key drivers of the operating result – net interest income and general administrative expenses – made the largest positive contribution in terms of amount. In contrast, the result from loan loss allowances and provisions was considerably worse than projected due to the negative consequences of the coronavirus pandemic. The positive trend in the result before loan loss allowances and provisions and before revaluation could not compensate for the unanticipated strongly negative trend in the net result from loan loss allowances and provisions, resulting in a net loss for the year that was significantly lower than forecast.

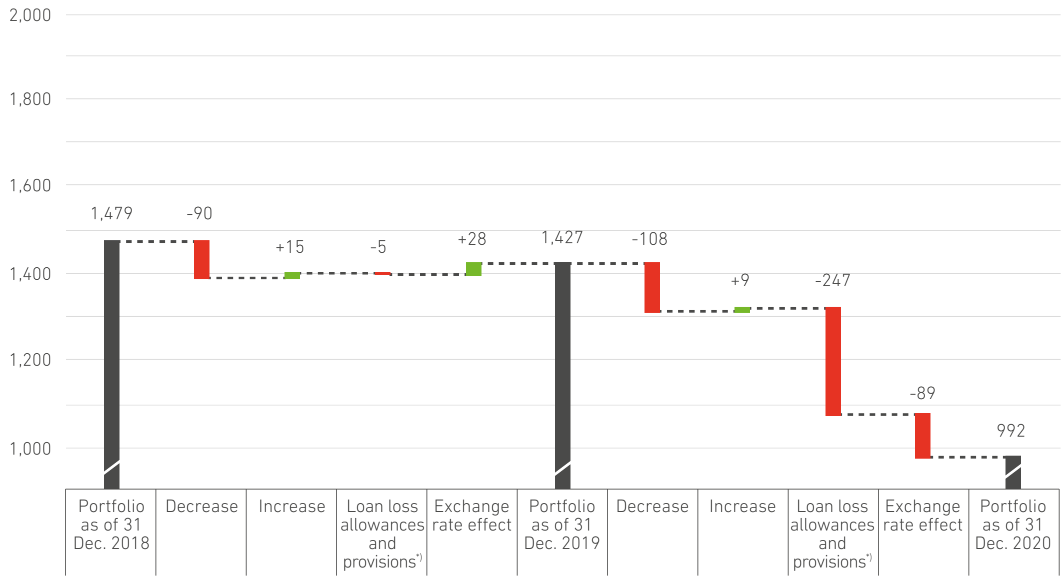
Several factors are responsible for the significant improvement in net interest and commission income compared to plan. The noticeably negative consequences of the coronavirus pandemic, especially in the first half of the year, and the sharp decline in the US dollar reference interest rate Libor compared to plan for the predominantly variable-rate exposures led to interest income that was significantly below plan. The weaker US dollar over the course of the year also had a negative impact. These negative factors were more than compensated for by lower interest expenses, which also benefited from the US dollar reference interest rate Libor and the development of the US dollar. While commission income from the lending business was higher than planned, commission expenses from the issuing business overcompensated for the income and led overall to a negative commission result below the planned value. Other comprehensive income was better than expected due to higher reimbursements from third parties. Personnel expenses were significantly below plan, in particular due to expenses for personnel-related measures that were not incurred. In addition, developments affecting expenses, such as the earlier reduction in staff during the year and the postponement of the salary development round, had a positive impact on personnel expenses. The reduction in staff by the end of 2020 was at the planned level. The reason for the significantly lower other administrative expenses compared to the budgeted figure was largely due to lower costs for significant outsourcing as a result of faster cost savings from the servicing of the loan portfolio transferred to IBM.

2.2.2 Asset resolution report

In accordance with section 8 of the Statute, portfoliomanagement submits a report to its Advisory Board each quarter on the ongoing implementation of the resolution plan in the form of an asset resolution report. The asset resolution report contains information on the acquired loan portfolio, the resolution activities in the reporting period and the status of the implementation of the resolution plan. The success of the resolution activities is measured on the basis of the extent to which the objectives in the resolution plan have been achieved, taking into account the market environment in each case.

The following overview shows changes in the carrying amount of the loan portfolio in the past two financial years:

Changes in the carrying amount of the portfolio in EUR million



*) Balance of additions to and reversals of loan loss allowances and provisions

In the 2020 financial year, the carrying amount of the portfolio before exchange rate effects, defined as a key performance indicator, decreased by a total of EUR 346 million to EUR 1,081 million. The reduction in the loan portfolio in the amount of EUR 108 million results from principal repayments. On the other hand, there was a slight increase in the carrying amount by a total of EUR 9 million in connection with liquidity support for individual borrowers and capitalised recoverable pro rata interest. The figure reported for loan loss allowances and provisions as of 31 December 2019 was significantly increased by EUR 247 million as of 31 December 2020 and reduces the carrying amount accordingly. Furthermore, the exchange rate prevailing on the balance sheet date was taken into account for the loans almost exclusively denominated in US dollars. In particular, due to the weaker US dollar compared to 31 December 2019, there is a currency-related reduction in the carrying amount of EUR 89 million. In total, the carrying amount of the portfolio amounts to EUR 992 million as of 31 December 2020. The reduction in the carrying amount achieved in 2020 is slightly above plan before risk provisioning and exchange rate effects.

Incoming payments from interest and principal payments in the 2020 financial year totaled around EUR 147 million.

The outstanding loan amount of the portfolio decreased by EUR 392 million to EUR 2,901 million in the 2020 financial year. The decrease is mainly due to principal payments and loan losses and would have been around EUR 266 million lower without the weakening of the US dollar against the Euro.

2.3 NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS OF PORTFOLIOMANAGEMENT

2.3.1 Net assets

The net assets of portfoliomanagement are as follows:

Balance sheet[1)]

in EUR thousand	31 Dec. 2020	31 Dec. 2019	Change
Assets			
Cash reserve	9,194	7,285	1,909
Loans and advances to banks	86,324	43,586	42,738
Loans and advances to customers	991,794	1,426,917	-435,123
Prepaid expenses	2,187	4,311	-2,124
Deficit not covered by equity	774,776	540,151	234,625
Other items	993	1,095	-102
TOTAL ASSETS	**1,865,268**	**2,023,345**	**-158,077**
Liabilities			
Liabilities to banks	0	138,581	-138,581
Liabilities to customers	17	0	17
Debt securities issued	1,861,938	1,880,658	-18,720
Other liabilities	1,031	1,736	-705
Deferred income	523	268	255
Provisions	1,759	2,102	-343
TOTAL LIABILITIES	**1,865,268**	**2,023,345**	**-158,077**

[1)] Figures taking into account rounding differences

The net assets and the capital structure of portfoliomanagement continue to be characterised by the responsibilities assumed by the institution as an asset resolution entity of the federal states and by the particular nature of its business operations.

The cash reserve and loans and advances to banks of EUR 95.5 million together increased significantly as of the reporting date (previous year's reporting date: EUR 50.9 million).

The net assets of portfoliomanagement are dominated by the loan portfolio acquired from HSH Nordbank AG (legal successor Hamburg Commercial Bank AG) as at 30 June 2016. The portfolio consists almost exclusively of non-performing loan receivables from ship financing, which are almost entirely denominated in US dollars. The portfolio is valued at acquisition cost, taking into account individual value adjustments, which are determined on the reporting date.

Due to loan repayments received, isolated liquidity support, high net additions to value adjustments and taking into account exchange rate effects, loans and advances to customers declined by EUR 435.1 million to EUR 991.8 million as at 31 December 2020. For details, please refer to the previous section 2.2.2 of the management report.

Prepaid expenses relate to discounts and issuing costs in connection with the issuance of bonds (EUR 1.7 million; previous year: EUR 3.6 million) as well as prepaid invoices (EUR 0.4 million; previous year: EUR 0.7 million).

Liabilities to banks (EUR 0 million; previous year: EUR 138.6 million) were repaid in full by issuing debt securities.

For information on the change in debt securities, please refer to the next section (2.3.2 Financial position).

Other liabilities (EUR 1.0 million; previous year: EUR 1.7 million) are almost exclusively accounted for by trade payables (EUR 0.9 million; previous year EUR 1.6 million).

Deferred income (EUR 0.5 million; previous year EUR 0.3 million) primarily relates to premiums from bonds, which will be reversed on a straight-line basis over the maturity of the bond.

Provisions (EUR 1.8 million; previous year: EUR 2.1 million) were formed within the framework of prudent business judgement and were mainly accounted for by provisions for outstanding invoices and audit costs as well as preparation of the financial statements.

Particularly as a result of the loan loss allowances and provisions made in the lending business in the 2016 and 2020 business years, there is a deficit of EUR 774.8 million (previous year: EUR 540.1 million) at the end of the current business year that is not covered by equity. The continued existence of portfoliomanagement is not at risk due to the institutional liability and the guarantor liability of the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg.

2.3.2 Financial position

With a view to ensuring sufficient liquidity at all times while minimising currency risks, portfoliomanagement continued to focus on further strengthening the short-term funding base in 2020 by using the European Commercial Paper Programme[5] implemented in 2017. Compared to the previous year, funding under this programme was increasingly carried out in Euros, while the US dollar ECPs in the portfolio declined significantly. In addition, a maturing USD 500 million issue was replaced by the issuance of two new issues (USD 250 million each).

The debt securities of EUR 1,861.9 million (previous year: EUR 1,880.7 million) relate to the US dollar issues placed on the capital market as part of the debt issuance programme – half fixed and half floating rate – totalling the equivalent value in Euros of EUR 814.9 million as well as the fixed-rate Euro bonds also issued totalling EUR 400.0 million plus accrued interest in each case (EUR 1.4 million). In addition,

[5] European Commercial Paper (hereinafter referred to as "ECP")

short-dated fixed-income securities were issued within the framework of the ECP programme. The ECPs, with a total Euro equivalent of EUR 645.6 million, all maturing in 2021, are comprised of USD 240.0 million and EUR 450.0 million.

As at the balance sheet date, the maturity structure of the capital market issues (carrying amounts) and their currencies were as follows:

Maturities by calendar year		31 Dec. 2020			31 Dec. 2019	
in EUR thousand	US dollar issues	Euro issues	Total issues	US dollar issues	Euro issues	Total issues
2020	0	0	0	949,291	85,000	1,034,291
2021	603,320	600,000	1,203,321	446,264	150,000	596,264
2022	204,049	100,000	304,049	0	100,000	100,000
2023	204,465	150,103	354,568	0	150,103	150,103
2024	0	0	0	0	0	0
TOTAL	**1,011,834**	**850,103**	**1,861,938**	**1,395,555**	**485,103**	**1,880,658**

The following ratings have been in place since October 2016 and were past confirmed on 27 November 2020 (Fitch) and on 12 February 2021 (Moody's):

	Short-term rating	Long-term rating
Moody's Investors Service	P-1	Aa1
Fitch Ratings	F1+	AAA

Portfoliomanagement believes that these ratings, in conjunction with the guarantees provided by the sponsoring states and the two established issuing programmes for short- and long-term issues, mean that funding through the international capital markets can be ensured.

For further information on the financial position, please refer to the cash flow statement, which was prepared in addition to the statement of changes in equity as an extension of the annual financial statements.

2.3.3 Results of operations

The results of operations are shown in detail below:

Income statement[1)]

in EUR thousand	1 Jan.–31 Dec. 2020	1 Jan.–31 Dec. 2019	Change
Net Interest income	26,707	22,957	3,751
Net commission income	-34	138	-172
Other result[2)]	1,640	2,283	-643
Personnel expenses	-5,849	-6,200	351
Other administrative expenses	-12,564	-18,824	6,260
Depreciation and amortiziation	-142	-138	-4
Result before loan loss allowances and provisions, and before foreign currency translation	**9,758**	**216**	**9,543**
Result from loan loss allowances and provisions	-243,622	-5,330	-238,292
Result from foreign currency translation[3)]	-760	-389	-371
Taxes (including Other taxes)	-1	-2	0
NET LOSS FOR THE YEAR	**-234,625**	**-5,505**	**-229,120**
Loss brought forward from the previous year	-540,151	-534,647	-5,505
NET ACCUMULATED LOSS	**-774,776**	**-540,151**	**-234,625**

1) Figures taking into account rounding differences
2) Excluding result from foreign currency translation
3) Reclassified from "Other result"

Net interest income is made up of interest income from lending and money market transactions and interest expenses in connection with funding. In the past financial year, portfoliomanagement recorded an increase in net interest income of EUR 3.8 million to EUR 26.7 million. Compared to the previous year, significantly reduced interest income (EUR 43.1 million; previous year: EUR 62.0 million) was offset by strongly reduced interest expenses (EUR 16.4 million; previous year: EUR 39.0 million). The ability of portfoliomanagement clients to service interest was limited due to the difficult general conditions during the coronavirus pandemic. In addition, the interest income from the predominantly variable-rate exposures was burdened by the continuous decline in the US dollar reference interest rate Libor over the course of the year as well as the weaker US dollar. The reduced volume of receivables due to repayments also contributed to the overall significant decline in interest income. The strong reduction in interest expenses compared to the previous year more than compensated for the negative effects on the income side. They also resulted from the weaker US dollar over the course of the year and the simultaneous decline in the US dollar reference interest rate Libor. In addition, the fact that the funding volume also fell in line with the loan portfolio had a positive effect.

Net commission income also declined at a low level by EUR 0.1 million to EUR 0 million (previous year: EUR 0.1 million). While commission expenses of EUR 0.4 million were slightly below the previous year's level (EUR 0.5 million), the commission income received fell comparatively more strongly in the same period to EUR 0.4 million (previous year: EUR 0.7 million).

Cost reimbursements from third parties (EUR 1.4 million; previous year: EUR 1.7 million), especially from the passing on of legal fees (EUR 0.5 million; previous year: EUR 1.2 million), as well as reversals of provisions (EUR 0.2 million; previous year: EUR 0.3 million) mainly contributed to the positive other comprehensive income figure of EUR 1.6 million (previous year: EUR 2.3 million).

Compared to the previous year, personnel expenses decreased noticeably (EUR 5.8 million; previous year: EUR 6.2 million). The average number of full-time employees in 2020 was 49.5 (previous year: 55.6 full-time employees).

Other administrative expenses amounted to EUR 12.6 million (previous year: EUR 18.8 million). The largest items are costs for material outsourcing arrangements (EUR 6.1 million; previous year: EUR 7.3 million), legal fees (EUR 1.2 million; previous year: EUR 1.8 million) and costs for supporting ongoing business operations (EUR 1.1 million; previous year: EUR 1.9 million). The expenses for legal advice mainly relate to the lending business and were partly passed on; the associated income (EUR 0.5 million; previous year: EUR 1.2 million) was collected in other comprehensive income.

Loan loss allowances and provisions for the lending business was significantly lower in the 2020 financial year than in the previous year (EUR 5.3 million), with a negative contribution to earnings of EUR 243.6 million. This was due in particular to the high allocations to value adjustments required in the second quarter of 2020 as a result of the pandemic. From the third quarter onwards, there was a recovery in the shipping markets. In addition, portfoliomanagement adjusted the strategic resolution plan to more short- and medium-term disposal scenarios.

The negative result from foreign currency translation amounts to EUR 0.8 million (previous year: EUR 0.4 million). In accordance with section 340h of the German Commercial Code (HGB) in conjunction with section 256a of the HGB, the result is shown net, taking into account temporary foreign currency surpluses.

The financial year closed with a net loss of EUR 234.6 million (previous year: EUR 5.5 million). The accumulated loss for 2020 amounts to EUR 774.8 million (previous year: EUR 540.1 million).

2.3.4 Overall assessment of the net assets, financial position and results of operations of portfoliomanagement

As of 31 December 2020, portfoliomanagement reported a deficit not covered by equity in the amount of EUR 774.8 million (previous year: EUR 540.1 million). In its business activities, it can rely on the institutional liability and guarantor liability of the sponsors of portfoliomanagement – the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg. The sponsors shall be liable for the liabilities of the institution to third parties without limitation as joint and several debtors if and to the extent that creditors cannot obtain satisfaction from the assets of the institution.

Overall, it was ensured at all times that liquidity was available in sufficient quantities. In the opinion of portfoliomanagement, the existing ratings, the guarantees provided by the sponsoring states and the access to the capital markets will continue to ensure that it has the necessary liquidity at all times in the future.

The results of operations in the 2020 financial year need to be assessed in a differentiated way against the background of the business activities of portfoliomanagement and the negative effects of the coronavirus pandemic. The significantly improved net interest and net commission income compared to the previous year as well as significantly reduced general administrative expenses led to a positive operating result well above the forecast figures. This, together with a significantly negative result from loan loss allowances and provisions, which was not expected in its amount, and a slightly negative result from foreign currency translation, resulted in a net loss for the year of EUR 234.6 million (previous year: EUR 5.5 million).

2.3.5 Events after the balance sheet date

After the balance sheet date, the container markets continued to recover significantly in early 2021. These positive developments represent a value-creating event after the balance sheet date. From today's perspective, portfoliomanagement therefore expects a notable release of risk provisions in the first quarter of 2021.

3 FORECAST, OPPORTUNITY AND RISK REPORT

3.1 FORECAST REPORT WITH RISKS AND OPPORTUNITIES

The forecast for 2021 is based on the resolution plan adopted in the fourth quarter of 2020. The statements contained in this forecast report therefore generally reflect the information available in this period. Resolution planning is based on forward-looking forecasts, expectations and planning assumptions.

With regard to the occurrence of the planning assumptions, there are known and unknown uncertainties that are largely beyond the control of portfoliomanagement. The resolution plan is therefore subject to considerable uncertainties. It follows from this that the actual development of portfoliomanagement may deviate significantly from the forecast. At present, the concrete effects of the coronavirus pandemic on the economy, individual markets and sectors in particular cannot yet be conclusively assessed.

The following statements should be read in conjunction with the other chapters of the management report.

3.1.1 Report on expected developments

3.1.1.1 Global economy and financial markets[6]

The International Monetary Fund (IMF) has raised its forecast for global economic growth in 2021 by 0.3 percentage points to 5.5%.

The IMF sees the coronavirus pandemic as a major factor influencing the global economy in 2021. On the one hand, a positive effect is expected from the global vaccination campaigns and on the other hand, further economic stimulus measures, especially in large industrial nations are expected to have an impact. In addition to fighting the pandemic, it can also be observed that the whole of the economy is increasingly adapting to the restrictions.

The IMF points out that further economic development will depend very much on the further course of the pandemic.

In parallel with the recovery of the global economy, the World Trade Organisation expects world trade to grow by 7.2%, with maritime trade in tonnes forecast to increase by 4.7% (after -3.8% in the previous year).

With regard to the development of the interest rate level (in particular the three-month US dollar reference interest rate Libor and the three-month reference interest rate Euribor) and the Euro/US dollar exchange rate, portfoliomanagement assumes market expectations on the basis of forwards provided by the market data provider Bloomberg. There is no modelling by portfoliomanagement.

[6] International Monetary Fund, World Economic Outlook, January 2021, World Trade Organisation, press release 862 dated 6 October 2020 and Clarksons Research Database

The reference interest rates have been at historically low levels in both US dollars and Euros since the past cuts by the Fed in March 2020 (US dollar: Federal Fund rate spread since 16/03/2020: 0.00-0.25%; Euro: ECB key interest rate since 10/03/2016: 0.00%). The three-month forward rates signal a consistently low level for 2021.

The forward rates for the Euro/US dollar exchange rate signal a further depreciation of the US dollar in the coming years, with a small depreciation of 1% expected by the end of 2021. The basis for the calculation is the spot exchange rate at the time, as well as the future interest rates in both currencies, the Euro and the US dollar.

3.1.1.2 Development of the segments relevant for portfoliomanagement in the shipping sector

Container market[7]

After the year 2020 ended at a very strong level, the signs point to a continued positive market environment at least for the first half of 2021. As vaccines become more widely available and pandemic-related restrictions are eased worldwide, global demand should continue to recover. Private consumption is expected to catch up after restrictions during the long lockdowns. This should mean robust demand for container tonnage, with growth (TEU) expected to be around 5.7%.

On the supply side, on the other hand, only very few free ships will be available to the charter market in the coming months, as many longer time-charter periods have also been closed in recent months, tying up ships. Compared to the development in demand, only slight tonnage growth of about 3.8% is expected for 2021. This is mainly concentrated on very large container ships, which are generally not available to the charter market.

From today's perspective, more ships could be available on the market again from the middle of 2021 due to expiring charter contracts. On the demand side, too, some declines from the very high level are to be expected after the pandemic-related one-off catch-up effects have subsided. As a result, this should lead to correspondingly weaker charter rates and second-hand prices in the course of the year, although they should remain well above the average level of recent years thanks to good fundamentals. The charter rates and second-hand prices of the container ships financed by portfoliomanagement would also benefit from this.

Despite the short-term market improvements observed in 2020, in the long term it should be pointed out that MSI's charter-rate forecasts from the fourth quarter of 2020 will fall again in subsequent years and are significantly below MSI's charter-rate forecasts from the fourth quarter of 2019.

Tanker market[8]

The product tanker market is expected to remain largely under pressure in 2021. It is true that the global economy is expected to strengthen and demand for energy will increase accordingly. Global oil demand is expected to grow by about 6.2% in 2021, with production expected to increase by about 1.5%. Demand growth for product tankers is forecast at around 6.5%. However, in 2020, oil demand fell sharply by about 8.8% and production fell by about 6.6%.

[7] Clarksons Research, Container Intelligence Monthly Volume 23 No.1, 2021, and Howe Robinson Partners, Containership Annual & Fourth Quarter Review 2020.
[8] Clarksons Research, Oil & Tanker Trades Outlook Volume 26 No. 1, 2021.

In addition, due to the favourable purchase prices in the previous year, the storage facilities are well filled. In this respect, overcapacities are putting pressure on the market. Product tanker capacity is expected to increase further by approx. 3.9% in 2021. Rising demand is not expected to lead to better revenues for product tankers until autumn, when storage sites are restocked and the heating season begins in the main consumer regions. As a result, charter rates and second-hand prices for tankers financed by portfoliomanagement are likely to remain under pressure until at least the end of the first half of 2021; from the second half of the year onwards there is at least potential for improvement.

Dry bulk market[9]

The fundamentals speak for a good development of the dry bulk market in 2021. Global demand for bulk shipments is expected to grow by around 3.7%, with the bulker fleet (DWT) expected to grow by only around 2.6% over the same period.

Fleet growth in 2021 will again be driven significantly by large classes such as Capesize bulkers and by the Panamax class. Approx. 6.1% of the current fleet is at least 20 years old and can be considered as scrapping potential for the next few years. The orderbook was at a very low level of only approx. 6.1% in relation to the existing fleet at the beginning of the year.

On the demand side, growth is largely determined by the Asian region. China's share alone of the most important bulk commodity iron ore was around 76.2% in 2020. In 2020, global iron ore imports grew at around 3.0%, with Chinese imports growing by around 9%. Global imports are again expected to increase by around 3.0% in 2021, with Chinese iron ore imports likely to stagnate. On the export side, the largest suppliers Australia and Brazil are expected to increase their volumes by about 2.0% and about 6.0% respectively. For coal, the most important bulk commodity after iron ore, solid growth of about 5.0% is expected. As a result, the charter rates and second-hand prices of the bulkers financed by portfoliomanagement should improve.

3.1.2 Forecast of business development with significant opportunities and risks

Based on the expected global economic conditions and the development of the shipping markets relevant for portfoliomanagement, the forecast effects on the net assets, financial position and results of operations of the institution are described below.

3.1.2.1 Forecast of the changes to financial and non-financial performance indicators

The financial and non-financial performance indicators – carrying amount of the loan portfolio, general administrative expenses and number of employees – are planned as follows compared to 2020:

The carrying amount of the loan portfolio will be significantly below the previous year's level (EUR 991.8 million) at the end of 2021. The expected reduction results on the one hand from the repayments by borrowers forecast for 2021 and on the other hand from expected proceeds from the realisation of ship collateral.

The borrowers' repayments are determined in particular by the net revenues from the operation of their ships (charter less ship operating costs) as well as the interest rate level for the predominantly variable-interest

[9] Clarksons Research Database and Clarksons Research, Dry Bulk Trade Outlook Volume 27 No. 1, 2021.

loans. The proceeds from the realisation of ship collateral are determined by market developments and their influence on ship values. Due to the almost complete denomination of the loan portfolio in US dollars, the exchange rate development also has an influence on the carrying amount of the loan portfolio reported in Euros.

In this context, the main forecasting basics for the resolution plan for 2021 are:

- The cash flows expected from the ship collateral were modelled using market data from Maritime Strategies International Ltd. (MSI) and VesselsValue Ltd, both London.
- The development of the reference interest rates and the US dollar exchange rate were derived from Bloomberg market data. For the forecast, the forwards on the development of the three-month US dollar reference interest rate Libor, the three-month reference interest rate Euribor and the US dollar/Euro exchange rate were applied.

For 2021, portfoliomanagement expects a fundamentally improved level for the relevant shipping markets compared to the previous year, which was heavily impacted by the pandemic, on the basis of the aforementioned effects. As a result, portfoliomanagement assumes that the economic situation of its borrowers will develop more positively overall than in the previous year.

General administrative expenses are expected to show a noticeable decrease in 2021 compared to the previous year (EUR 18.4 million). This forecast assumes that

- personnel expenses will be moderately higher than in the previous year despite a small reduction in personnel, as employee retention measures will also be necessary in 2021, and
- other administrative expenses will be significantly below the previous year's level, mainly due to a further noticeable reduction in costs for major outsourcing activities.

The headcount (full-time equivalents) is declining due to the progressive reduction in the loan portfolio. Due to a reduction in staffing levels in the past that exceeded the budget, the reduction targets for the forecast period have already been almost completely met, so that the planned number of full-time employees at the end of 2021 will, according to our expectations, be only slightly below the value at the end of 2020 (47.6 full-time employees).

3.1.2.2 Forecast for net assets, financial position and results of operations

The net asset position in 2021 will continue to be characterised by the loan portfolio. The management of this portfolio, mainly restructurings and the realisation of loan collateral, will also determine the year 2021. Here, the actual market development is of key importance.

The financial position in 2021 will be primarily characterised by issuing activities under the established issuing programmes, as required. According to portfoliomanagement's assessment, the good ratings as well as the institutional liability and guarantor liability of the sponsors, Hamburg and the Federal State of Schleswig-Holstein, will ensure access to the capital markets at all times.

The results of operations in 2021 will be characterised by the planned significant decline in net interest income and, at the same time, considerably lower other administrative expenses.

The interest income received will be significantly below the previous year's level due to the strong decline in the volume of receivables on the one hand and a moderate decline in the US dollar Libor compared to the fourth quarter of 2020 as well as a weaker US dollar on the other. The expected interest expenses will also be noticeably lower than in the previous year due to noticeably lower funding volumes and slightly lower variable funding interest rates and a weaker US dollar.

Net commission income will be characterised by declining commission income in the lending business, which will no longer fully cover the commission expenses in the issuing business. It will settle at a worse, but still low, negative level compared to the previous year.

Other comprehensive income is also expected to decrease significantly due to lower income.

General administrative expenses in total will be noticeably below the previous year's level.

The decline in general administrative expenses can only partially compensate for the expected significantly lower interest result, so that a positive operating result significantly below the previous year is forecast.

The trend in loan loss allowances and provisions is essentially dependent on the forecast for the generally cyclical and volatile shipping markets. The predominantly improved market outlook for 2021 and the development of borrowers that is expected to accompany it is offset by the ageing of the collateral portfolio. Based on the market expectations at the time of the planning in the fourth quarter of 2020, the result from loan loss allowances and provisions for 2021 is almost balanced and positive.

It remains to be seen whether the forecast slightly positive operating result and risk provision result will lead to a positive annual result overall in the 2021 financial year, as 2021 will be subject to the fundamental market uncertainties of another pandemic year.

3.1.2.3 Opportunities and risks of future development

The external influencing factors listed in section 3.1.1 give rise to both opportunities and risks for portfoliomanagement. These are discussed in more detail below.

The development of both the shipping markets and the capital markets (especially foreign exchange but also interest rate markets) can be particularly strongly influenced by so-called “external shocks”, which are not taken into account in forecasts. These include, for example, natural disasters, pandemics (e.g. Covid-19), wars, attacks or (trade) political interventions, but also political risks such as domestic political tensions in the USA. Such shocks have occurred repeatedly in the past. It cannot be ruled out that there will also be market distortions in the future that cannot be foreseen or are difficult to foresee in the short term.

Due to volatile markets, forecasts on the development of ship values, charter rates and ship operating costs as well as forwards on the development of the US dollar and Euro interest rate levels and the Euro/US dollar exchange rate are generally subject to a high degree of uncertainty, which increases over time and results from the following circumstances, among others:

- Increasing importance of trade conflicts
- Danger of overestimating future global economic growth
- Shipping highly cyclical, macroeconomic development has influence on maritime trade and charter rates
- Introduction of new global environmental standards
- Collapse of maritime trade and charter rates as a result of pandemics

History has repeatedly shown that the shipping markets can react extremely sensitively to changes in external economic and political conditions. From today's perspective, the following core risks can be identified for 2021: the coronavirus pandemic could worsen again, especially due to the emergence and spread of mutants. Renewed strict containment measures would have various negative implications for the economy and trade. To the extent that the effects of the coronavirus pandemic translate into sustained economic and capital market pressures beyond current expectations, this could significantly impact shipping markets through falling charter rates and ship values. In addition, increasing environmental regulations and new standards may have a significant negative impact on ship values. It is also conceivable that trade conflicts, especially between the USA and China, could intensify. There are also still various unresolved geopolitical tensions which, in the event of an escalation, could create uncertainty and negatively impact the shipping markets. Against this background of various influencing factors and uncertainties, there is a risk that – in deviation from portfoliomanagement's planning – in the event of negative developments on the shipping markets (in particular ship values), there may be significant additional expenses from loan loss allowances and provisions required on the one hand and also significant delays in reducing the carrying amount of the loan portfolio on the other. So it cannot be ruled out that corresponding developments could also lead to significant negative effects on the planned earnings figures, including the annual result.

Conversely, the above-mentioned circumstances also hold opportunities if the smouldering problems can be resolved more quickly than assumed. One possible scenario is that the coronavirus pandemic could be contained sooner, especially through vaccination. There is also the possibility that the new US administration will settle trade disputes and rely more on diplomacy to resolve political tensions.

The container market in particular, which has strengthened considerably in recent months, offers the chance of a sustained upturn and thus exit opportunities at comparatively good prices for portfoliomanagement in 2021. In the event of a better development of the shipping markets than expected (especially in the event of an increase in ship values), there is therefore nevertheless the chance of income from the release of risk provisions as well as a faster reduction in the carrying amount of the loan portfolio than previously planned.

With regard to the employees of portfoliomanagement, there is a risk of deviations from forecasts as a result of unplanned, increased employee fluctuations and associated implementation risks for the planned reduction in the carrying amounts of the portfolio. In this respect, staff fluctuations can also cause forecast deviations with regard to the reduction in the carrying amounts of the portfolio.

In addition, developments on the capital market could have a positive or negative impact on the financing options or funding costs of portfoliomanagement. A more restrictive than expected monetary policy implemented by the major central banks could increase funding costs. Due to the fact that the present portfolio consists exclusively of non-performing receivables from ship financing, an increase in funding costs could not be fully passed on to the borrowers and would lead to corresponding burdens on earnings.

3.1.3 Overall statement on the forecast report with opportunities and risks

Following a severe pandemic-related slump in the global economy in the past financial year, which resulted in overall negative but varying implications for the shipping sector, the IMF expects the global economy to recover by 5.5% in 2021. However, this presupposes that the negative consequences of the COVID 19 pandemic are promptly overcome worldwide through appropriate measures by governments, for example through rapid vaccination of the population with effective vaccines, government support and economic stimulus programmes, as well as flanking economic growth through continued monetary policy easing by central banks. In this case, the shipping markets relevant for portfoliomanagement should tend to develop favourably. From the second half of 2020 onwards, the container market showed a comparatively good level, and there is also potential for strengthening markets here in 2021. For the dry bulk market, the expectation points to sideways development with potential for slightly positive developments. Only the tanker market is expected to remain under pressure, especially in the first half of 2021. As the portfolio of ships financed by portfoliomanagement consists largely of container ship financing and only a small proportion of loans in tanker and bulk shipping, a positive development of the net assets, financial position and earnings situation is expected for the 2021 financial year.

portfoliomanagement will take advantage of the predominantly improved market conditions expected compared to the previous year to significantly further reduce its shipping loans where possible. This is accompanied by a significant decline in net interest income. At the same time, the further improvement in cost structures in the area of administrative expenses cannot fully compensate for this decline, so that a significantly reduced positive operating result compared to the previous year is forecast. The currently improved market environment has a stabilising effect on loan loss allowances and provisions, so that an almost balanced positive result from loan loss allowances and provisions is expected. Whether portfoliomanagement will achieve a net profit for the year depends on the development of market conditions and is subject to a high degree of uncertainty.

If, for example, the coronavirus pandemic is overcome more quickly than expected, this would tend to have a positive impact on the development of the global economy, and consequently on the shipping markets and ultimately on the net assets, financial position and earnings situation of portfoliomanagement. Conversely, if mutations of the coronavirus cannot be dealt with effectively and in a timely manner, this could potentially lead to a significant deterioration in general conditions and a burden on the net assets, financial position and earnings situation of portfoliomanagement.

3.2 RISK REPORT

3.2.1 Overview of risk management

In accordance with section 8b(2) sentence 1 in conjunction with section 8a(5) sentence 2 FMStFG (Financial Market Stabilisation Fund Act), portfoliomanagement must comply with certain regulations of the KWG (German Banking Act) and the WpHG (Securities Trading Act) and is supervised by the Federal Financial Supervisory Authority in this respect. portfoliomanagement is deemed an obligated entity within the meaning of section 2(1) of the Money Laundering Act. Section 15 of the Financial Services Supervision Act shall apply accordingly.

The KWG requires portfoliomanagement to have a "proper business organisation" (section 25a(1) sentence 1 KWG). This also includes an appropriate and effective risk management system. The risk management system includes, in particular, the establishment of internal control procedures with an internal control system and an internal audit department, adequate staffing and technical/organisational resources, and the definition of an appropriate emergency plan, especially for IT systems.

In establishing an appropriate business organisation in the area of risk management, portfoliomanagement has followed the circular 09/2017 (BA) of the Federal Financial Supervisory Authority ("Minimum Requirements for Risk Management – MaRisk") to the extent that this is reasonably applicable due to the special features of portfoliomanagement as a winding-up agency.

Risk management is a key component of the overall management of portfoliomanagement. The task of risk management is to support the value-preserving settlement of the portfolio and the management of the resulting risks while maintaining the principle of risk minimisation.

The individual elements of risk management together form a system that is designed to ensure the identification, analysis, assessment, control, ongoing monitoring and reporting of risks. The responsibilities within the framework of risk management are regulated in portfoliomanagement. The Executive Board bears the overall responsibility for risk management, including the methods and procedures to be applied for risk measurement, control and monitoring. Each quarter, a risk report informs both the Executive Board and the Advisory Board about the risk situation.

In order to assess the materiality of risks, portfoliomanagement conducts an overall risk inventory on an annual and ad hoc basis in order to determine an overall risk profile. In particular, the risks that could have a material adverse effect on the net assets, financial position, the results of operations and the liquidity position are reviewed. Due to the size and complexity of the transferred portfolio, counterparty credit risk is the most important type of risk. Liquidity risks, operational risks and market price risks were identified as further significant risks in the risk inventory carried out for the past time in December 2020. The risk strategy defines the responsibilities and processes, control and monitoring measures and risk tolerances (including limits and risk classifications) for these significant risks.

Strategic risks, business risks, regulatory risks and insurance risks were identified as further relevant but not material risks.

The Risk Controlling & Strategic Wind-down Planning unit is responsible for the independent monitoring and communication of portfoliomanagement risks and supports the Executive Board in risk policy issues as well as structuring a system to limit risks. It is responsible for monitoring counterparty default, market price and liquidity risks as well as operational risks. This explicitly includes the additional risks arising from the Covid-19 crisis. As part of regular internal reporting, analyses are carried out on the latest developments in the Covid-19 crisis to ascertain their effects on the risk types that are significant for portfoliomanagement and they are also subjected to stress scenarios. The Risk Controlling & Strategic Wind-down Planning unit analyses the risk positions as well as the utilisation of the limits and recommends – if necessary – risk-mitigation measures. portfoliomanagement's risk management system is part of Internal Audit's audit planning process.

3.2.2 Risk management goals

portfoliomanagement's risk management system aims to identify at an early stage, analyse and disseminate information on portfoliomanagement's risk situation and changes that occur as well as to develop and implement suitable measures to manage the risks associated with winding down the loan portfolio. Risk management at portfoliomanagement is based on the risk strategy determined by the Executive Board, which is reviewed at least annually and modified if necessary.

Risk awareness and transparency about the risks assumed are to be enhanced by assigning responsibilities at portfoliomanagement as follows:

- The Risk Controlling & Strategic Wind-down Planning unit is organisationally separate from the other departments. This is where independent reporting (risk control function) takes place, which includes the quarterly risk report, the quarterly asset resolution report and the annual resolution plan. It also incorporates the methodology for all risk types as well as for risk classification.
- The Loans unit monitors individual exposures regularly (at least annually) based on borrower units. This department is also responsible for the quarterly revaluation of collateral based on external expert valuation reports.
- Restructuring Management is organisationally separate from the Loans unit and is responsible for developing and implementing recovery and asset resolution strategies.
- In the Treasury & Finance unit, Treasury is responsible for the funding strategy, as well as managing and planning short- and long-term liquidity and managing exchange rate risks.
- External market data is obtained from recognised market data providers such as MSI, VesselsValue or Bloomberg.
- The Executive Board has the authority to make decisions, especially regarding loan loss allowances and provisions.

3.2.3 Counterparty credit risk

3.2.3.1 Definition

Counterparty credit risk is the most significant risk of portfoliomanagement and stems from the lending transactions in the portfolio transferred. Portfoliomanagement defines counterparty credit risk as the risk that business partners might not fulfill their contractual obligations or only fulfill them to a limited extent. Counterparty credit risk comprises credit, counterparty, issuer, settlement and country risks.

3.2.3.2 Strategic direction

The long-term strategic goal of portfoliomanagement is to wind up the loan portfolio in a way that preserves its value. The repayment of loans and advances to customers is achieved through repayments by borrowers or from the realisation of collateral. In this context, portfoliomanagement examines its options for action on a case-by-case basis, which are essentially aimed at a short or medium-term continuation of the exposure as well as a realisation of the collateral.

In the case of exposures with a positive recovery outlook, portfoliomanagement will resort to a range of restructuring and recovery measures. These can include, among other things, the deferment of debt servicing or extension of the loan maturity, subordination of priority and, where necessary, temporary liquidity support. Furthermore, in appropriate cases a change in technical or commercial management for the ships serving as collateral may take place in order to optimise cash flows.

For exposures focusing on realisation, portfoliomanagement determines the appropriate time to liquidate the collateral and end the credit exposure. The proceeds from the liquidation of collateral are used to reduce the loan portfolio.

In addition to the counterparty credit risk of borrowers, portfoliomanagement's risk strategy takes into account all other transactions subject to any default risk. The risk strategy therefore covers all on- and off-balance sheet business activities.

3.2.3.3 Management and monitoring

Counterparty credit risk is limited mainly by maximum credit limits set by portfoliomanagement based on the outstanding loan amount per borrower. If temporary liquidity bottlenecks of individual borrowers are bridged in the course of portfolio resolution, this temporary granting of funds requires a loan decision. Loan decisions are made by the Credit Committee.

The Risk Controlling & Strategic Wind-down Planning unit analyses and monitors the counterparty credit risk and the appropriateness of the risk provisions to be formed on a quarterly basis. Additionally, the Loans unit ensures that the largest individual exposures are regularly reviewed with regard to their risk situation. Loan loss allowances and provisions are calculated on a borrower basis. In addition, the Restructuring Management and Loan units report regularly, at least once a year, on all credit exposures to the Credit Committee.

portfoliomanagement sets individual limits for each counterparty for the investment of cash and cash equivalents in the form of overnight and fixed-term deposits as part of liquidity management. The decision on limits is made exclusively by the Executive Board at the request of the Treasury & Finance unit.

The Risk Controlling & Strategic Wind-down Planning unit issues a quarterly general risk report summarising the current situation and changes in counterparty credit risk and all sub-risks. The general risk report is addressed to the Executive Board and the Advisory Board.

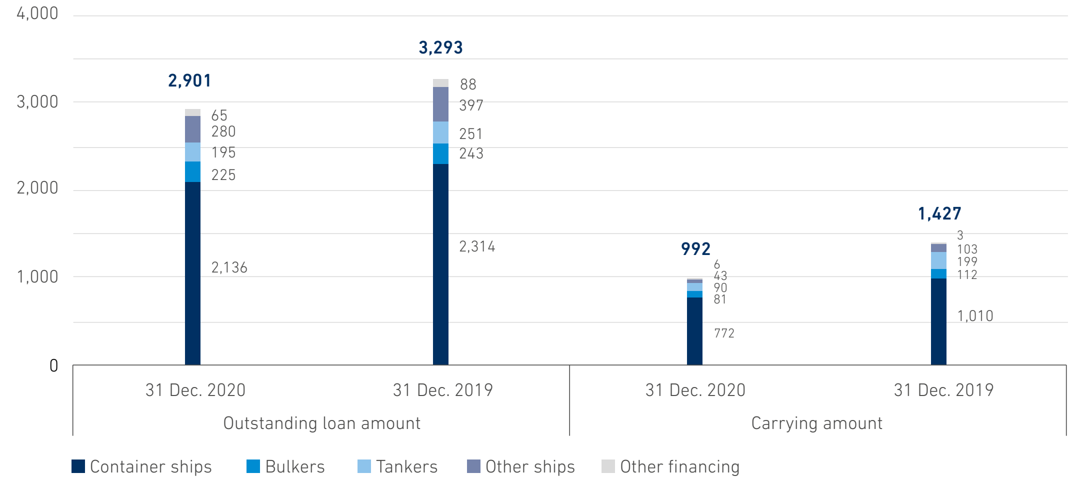
3.2.3.4 Credit risk

portfoliomanagement defines credit risk as the risk of potential loan losses if borrowers are unable to meet their contractual obligations at the respective due date, either in whole or in part.

The loan portfolio taken over comprises almost exclusively non-performing loans. As of 31 December 2020, the carrying amount of the portfolio was EUR 992 million. This is significantly below the outstanding loan amount of EUR 2,901 million. In the reporting period, the outstanding loan amount decreased by 12% and the carrying amount by 31%. The disproportionate decline in the carrying amount compared to the outstanding loan amount is essentially due to the risk provision created in the first half of 2020. Details on the valuation of collateral can be found in the accounting policies in the notes.

The loans in the portfolio are predominantly secured by ship mortgages. The repayments expected from the ship collateral fully cover the carrying amount of the loan receivables. A significant portion of the loans is related to container vessels (74% of the outstanding loan amounts or 78% of the book value of the loan receivables). The other segments of bulkers, tankers and other ships, which essentially include multi-purpose ships, have a significantly smaller share of the loan portfolio compared to container ships. The number of ships serving as collateral declined by 10 ships to 144 in the financial year due to restructuring and liquidation measures.

Breakdown of the loan portfolio by ship segment in EUR million

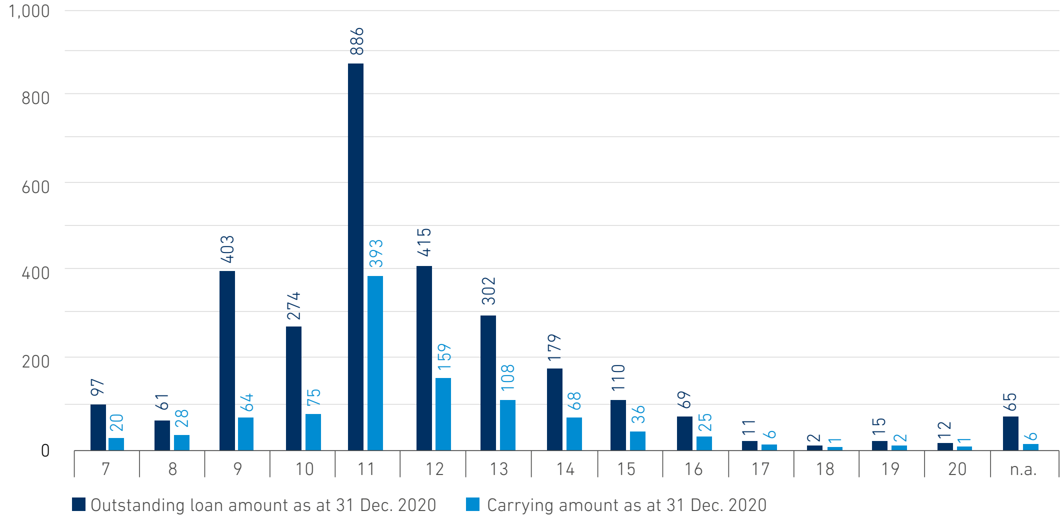


The market developments, which continue to vary greatly across the individual ship segments, will influence the amount of capital services and payment defaults to be expected. In particular, portfoliomanagement aims to make best possible use of the current historically high market level in the container markets. The second-hand market in particular is a major risk factor for achievable proceeds.

The loan portfolio shows a concentration on a few large borrower units. In terms of the carrying amount of loan receivables, the ten largest borrower units account for around 82% of the portfolio.

The loans are predominantly denominated in US dollars and to a small extent in Euros, with the Euro share of the total portfolio being less than 1%.
The age of the ships serving as collateral is essential for a longer-term wind-up strategy. The average age of the vessels weighted by outstanding loan amount was 11.3 years as of 31 December 2020.

Breakdown of outstanding loan amounts and carrying amounts by ship age in EUR million and years



Borrowers of portfoliomanagement are assigned to four risk classes, which differ as follows:

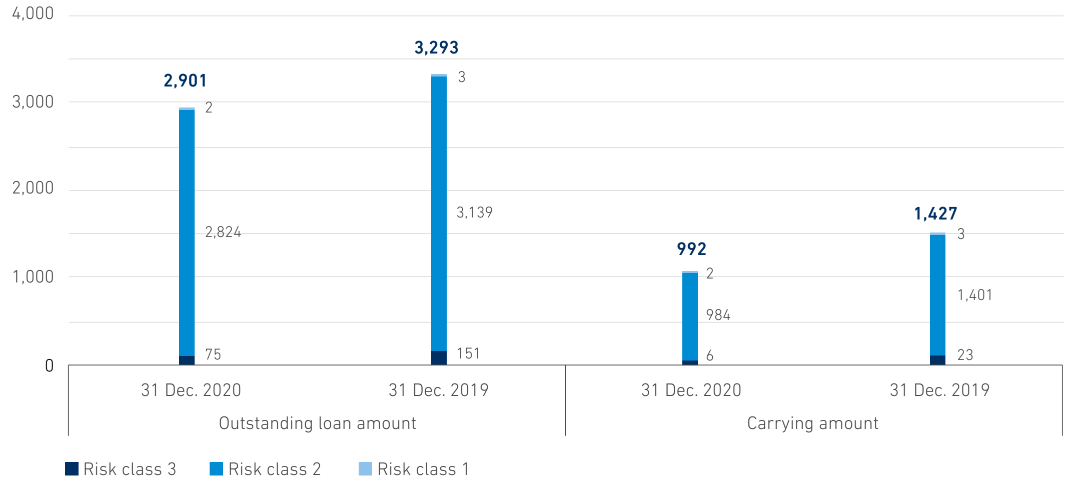
- Risk class 0 comprises all borrowers subject to regular monitoring (no borrowers as at the balance sheet date)
- Risk class 1 comprises borrowers subject to intensive monitoring (20% default rate)
- Risk class 2 is assigned to borrowers[10] in default with a positive going-concern outlook
- Risk class 3 comprises defaulted borrowers who are in liquidation because recovery is not expected.

The exposure management system treats all exposures as defaulted, irrespective of the risk class.

The outstanding loan amounts as well as the carrying amount of the loan receivables are spread across three of the four portfolio management risk classes. A total of 97% of the outstanding loan amounts or 99% of the carrying amount of the loan receivables is attributable to borrowers assigned to risk class 1 or risk class 2. As at the balance sheet dates 31 December 2019 and 31 December 2020, no borrowers have been assigned to risk class 0.

[10] A borrower is considered to have defaulted if, among other things, he or she has not made a debt repayment on his or her debt in full or at all for a period of more than 90 days.

Risk structure of the loan portfolio in EUR million



In addition to the credit risk described above, portfoliomanagement also takes into account the credit risk from the investment of liquidity in compliance with counterparty-specific limits. As at 31 December 2020, the invested funds amounted to EUR 95.5 million.

3.2.3.5 Counterparty risk from derivatives and settlement risk

There were no derivatives in the portfolio as at the balance sheet date. Derivatives are the source of counterparty risk because market-driven changes in price can occur during their term. If a counterparty defaults, there is a risk that portfoliomanagement may only cover be able to replace the derivative with a new contract at a less favourable price. A counterparty risk exists over the entire term of the transactions. In addition, no settlement risks materialised in 2020. Settlement risk is the potential loss in the event of default of a counterparty on the money and capital markets during the settlement period. This risk results from transactions in which there is a danger that because of portfoliomanagement's advance performance, counterparties will fail to provide the consideration owed either in whole or in part.

3.2.3.6 Issuer risk

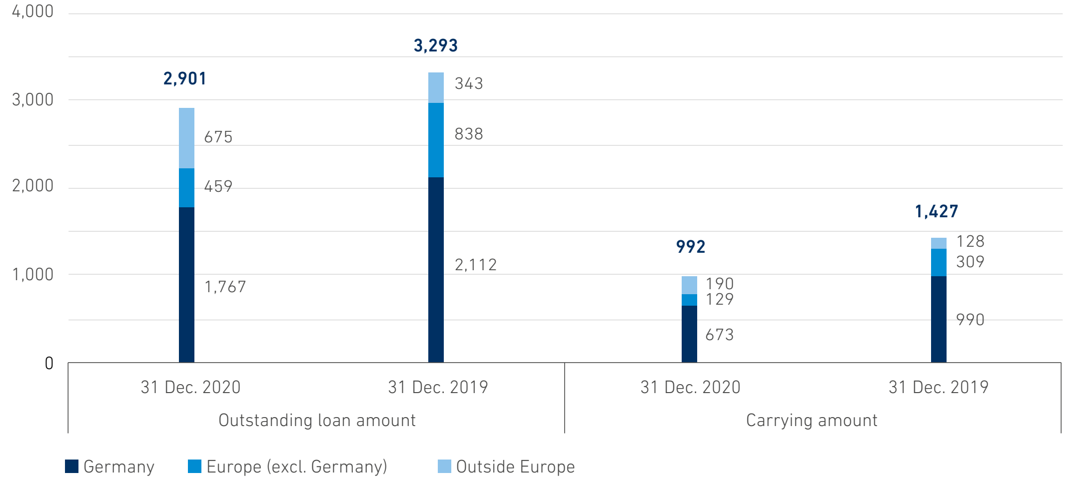
There was no issuer risk as at 31 December 2020. Issuer risk refers to the risk of loss due to a deterioration in creditworthiness or the default of an issuer. portfoliomanagement still does not intend to acquire securities for its own portfolio.

3.2.3.7 Country risk

Country risk describes the danger associated with lending to borrowers domiciled abroad that agreed payments will not be made either in whole or in part due to government-imposed restrictions on cross-border payments. Thus, the ratings of the relevant countries of domicile as well as any rating changes occurring over time are key indicators of country risk. In addition, the "outlook" published by rating agencies allows a conclusion to be drawn as to whether a country requires more intensive monitoring.

In terms of their place of business, the regional focus is on borrowers in Europe, particularly Germany. Borrowers with their place of business in Germany account for approximately 61% (64% at the end of 2019) of the outstanding loan amounts or 68% (69% at the end of 2019) of the carrying amount of the loan receivables. Customers with place of business outside Europe represent a comparatively small share of the loan portfolio, accounting for 23% (10% at the end of 2019) of the outstanding loan amounts and 19% (9% at the end of 2019) of the carrying amount of the loan receivables.

Country structure of loan portfolio in EUR million



3.2.4 Liquidity risks

3.2.4.1 Definition

portfoliomanagement defines liquidity risk as the risk of failure to meet due payment obligations in full or on time or of only being able to obtain funding at higher market rates.

3.2.4.2 Strategic direction

The objective of portfoliomanagement's liquidity strategy is to be able to meet payment claims at any time, i.e. to cover disbursements at any time through deposits and through possible liquidity measures. In this context, liquidity management must provide a liquidity buffer.

Due to the institutional liability and the guarantor liability of the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein as well as the agreements made with the owners on the granting of liquidity assistance, the liquidity risks primarily consist in the occurrence of systemic liquidity bottlenecks in the market and less commonly, from a lack of funding options for portfoliomanagement. When the market as a whole is in crisis (e.g. triggered by the Covid-19 crisis), portfoliomanagement must also count on incurring temporarily higher costs for funding to cover liquidity requirements. In addition, there is a danger that the unexpected failure to make payments (e.g. if settlement risk materialises) or execution of subsidiary agreements could adversely affect the liquidity situation of portfoliomanagement in the short term.

portfoliomanagement strives to avoid cost-intensive liquidity building because its credit rating ensures sufficient options for obtaining liquid funds. In ordinary business activities, standard market funding transactions are used to close liquidity gaps. In addition, portfoliomanagement can access short-term liquidity assistance from the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein. To ensure that liquidity is obtained at favourable terms, portfoliomanagement maintains relationships with banks and investors and maintains a presence on the international financial markets. This is intended to enable portfoliomanagement to react to changes in the market situation depending on capital market parameters.

In implementing its funding strategy, portfoliomanagement aims to achieve a balance between short-term and longer-term funding. Surplus liquidity generated during asset resolution activities is either temporarily invested at market conditions or, if possible and reasonable, used to repay portfoliomanagement's funding transactions.

The feasibility of this liquidity strategy is regularly analysed in stress scenarios in view of insolvency and funding risks by calculating the days of available liquidity assuming the elimination of expected cash inflows and reduction in existing liquidity potential.

3.2.4.3 Management and monitoring

Operational liquidity risk management is carried out by the Treasury & Finance unit, which conducts both short-term and medium-term liquidity planning. In this way, liquidity needs can be recognised well in advance and covered by implementing suitable measures. Operational management handles both short-term liquidity management of residual terms of up to one year and structural liquidity management involving funding activities to ensure the resolution of the portfolio while preserving as much of its value as possible. Currency mismatches and cluster risks are to be avoided as long as this is economically feasible.

The Risk Controlling & Strategic Wind-down Planning unit conducts detailed analyses of asset-side risk positions (including the planned liquidity reserve) and funding requirements to assess the liquidity situation. A liquidity gap analysis reflecting the expected cash inflows and outflows is also prepared.

Contractually agreed cash flows from funding and the cash flows from principal and interest repayments in the loan portfolio estimated in a model are used to calculate the flow of liquidity. Comparing expected incoming and outgoing cash flows is thus intended to provide information about possible future liquidity bottlenecks.

The liquidity positions are additionally assessed in the context of stress assumptions. The liquidity stress test aims to show whether the entity's liquidity is sufficient even when general conditions are less favourable than expected.

As of the balance sheet date, portfoliomanagement has sufficient liquidity. In addition to liquidity received from debt service by borrowers, portfoliomanagement obtains short-term funding from fixed-term deposits or placement of commercial paper, and medium-term funding from standard market instruments for procuring liquidity. In addition, portfoliomanagement can also draw down short-term loans from the Free and Hanseatic City of Hamburg of up to EUR 100 million or more – if available within the scope of the total liquidity support available for equity investments – as well as short-term liquidity support from the budget of the Federal State of Schleswig-Holstein of EUR 1 billion (maximum term six months) if required.

Taking into account the liquidity support available at short notice, portfoliomanagement has a consistently positive liquidity balance as at the balance sheet date of 31 December 2020 for the coming twelve months, ranging from EUR 114 million to EUR 962 million.

In the event of an observed tightening of conditions on the funding markets in Euros and US dollars (as was the case, for example, most recently in March 2020 prior to the crisis-related additional liquidity provision by the ECB and the US Federal Reserve), portfoliomanagement has a liquidity contingency plan that ensures short-term communication and responsiveness between the Treasury & Finance and Risk Controlling & Strategic Write-down Planning units with all necessary decision-makers.

The Risk Controlling & Strategic Write-down Planning unit monitors compliance with requirements for securing liquidity on a weekly basis. The results are presented in the quarterly risk report to the Executive Board and the Advisory Board.

3.2.5 Operational risks

3.2.5.1 Definition

portfoliomanagement defines operational risk as the risk of loss resulting from the inadequacy or failure of internal processes and systems, people or due to external events. Operational risks occur in the form of potential loss events in the course of portfoliomanagement's business activities that could lead to a deterioration in the net assets, financial position and results of operations. The definition of operational risks also includes outsourcing, compliance, IT, legal, model, reputational and personnel risks, but not strategic or regulatory risks.

3.2.5.2 Strategic direction

portfoliomanagement primarily pursues a strategy of avoiding operational risks while taking the principle of economic efficiency into account. The objective of the risk management process used is to identify risks to prevent loss events from occurring or to reduce their impact. For the analysis and assessment of operational risks, risk management and risk controlling processes have been set up in the specialised departments as part of a qualitative measurement approach.

3.2.5.3 Management and monitoring

For the monitoring and control of operational risks, a system for recording and measuring operational risks has been established in order to provide the Executive Board with an overview of all significant operational risks at all times.

Managers are directly responsible for the management to minimise, prevent and transfer operational risks as well as individual operational risks in their departments and can delegate the operational implementation to risk owners in their department. The primary operational risk prevention measures include the installation of effective internal control processes and procedures, a stable IT infrastructure and adequate staff deployment. Risk owners are responsible for reviewing their processes and systems for possible risks on an ongoing basis and documenting any losses that occur. The Risk Controlling & Strategic Wind-down Planning unit bears ultimate responsibility for the risk management and risk control processes for operational risks.

Management of operational risk is based on the risks identified in the annual OpRisk risk inventory and the losses recorded in the loss database.

The OpRisk risk inventory serves to identify changes in the risk profile of portfoliomanagement. In the event of negative developments, preventive control measures can be taken at an early stage. The objective of the OpRisk risk inventory is to identify and analyse risks. It also serves as a tool to communicate relevant risks across units, is intended to promote risk awareness among employees and therefore limit potential losses from the outset. The individual specialist departments assess their operational risks in terms of their severity and probability of occurrence.

Operational risks are systematically recorded by entering loss events after they occur in a loss event database and processing them there. Both direct and indirect effective gross losses (recognised and not recognised in the income statement) are recorded. Significant internal and external losses are analysed to determine their cause and effects on the risk profile in order to develop preventive action strategies to mitigate losses as well as to prevent similar losses from occurring again, thereby adequately managing operational risk.

In the calendar year 2020, losses totalling EUR 5.3 thousand were identified in connection with operational risks.

Based on the results of the ex-ante risk inventory and the ex-post analysis of the loss database, control measures are developed to manage material operational risks. To this end, damage-reduction measures are developed and weak points and potential areas of improvement are identified.

The personnel risk in portfoliomanagement was identified as the greatest operational risk in the OpRisk risk inventory. This results from the expectation that there will be increasing staff turnover as the portfolio is reduced. During the entire calendar year 2020, no staff absences caused by the coronavirus became known in portfoliomanagement. There were no remarkable incidents of sickness-related absenteeism and it was within a normal range.

In addition, IT risks and outsourcing risks were identified and analysed. All these topics are part of risk reporting. Due to the Covid-19 government guidelines, large parts of the workforce were partly working from home during the 2020 calendar year. In each case, the transition took place at full capacity without any abnormalities. The existing crisis team was used regularly during the pandemic to introduce the necessary measures and provide timely information about them.

The data submitted by Business Management/IT to the Central Risk Controlling function quantifies the IT risks based on observed infringements of service level agreements (SLA) and contains the information security reporting. A distinction is made here between procedures or systems that are managed by IT.

Risks from individual data processing (IDP) are managed in portfoliomanagement by the respective specialist departments.

Outsourcing risks arise from the contracting out of services to third parties if the services are not provided or not provided as agreed. Mitigating the risks associated with outsourcing involves developing measures to ensure service quality and performance by service providers as well as operational stability.

3.2.5.4 Outsourcing

portfoliomanagement has outsourced administrative service areas (including to Dataport AöR (IT)) for the resolution of the transferred loan portfolio. The service provider IBM is used for the essential administrative activities to support the resolution of the portfolio.

In principle, the requirements for outsourcing projects are derived from the State Treaty and the principle of economic efficiency, i.e. non-strategic areas and services that do not add value and can be provided cost-effectively by external service providers should be externalised. In addition to functions required from a legal or regulatory perspective, portfoliomanagement focuses its business activities on its strategic core competencies.

With the support of central outsourcing management, portfoliomanagement conducts control and monitoring processes to monitor its outsourcing activities with respect to service quality and compliance with the institution's internal and legal requirements. The relevant specialist department of portfoliomanagement is in charge of the technically correct provision of services by the service providers. The aim of these measures is to continuously improve the existing processes, structures and service definitions.

Based on risk analyses, portfoliomanagement determines which outsourcing of activities and processes are material from a risk perspective (material outsourcing activities). The risk analysis is to be carried out on the basis of uniform guidelines, both regularly and on an ad hoc basis, by the specialist department and takes into account all aspects relevant to the institution in connection with outsourcing (e.g. the material risks of outsourcing including possible risk concentrations, risks from further outsourcing and the suitability of the outsourcing institution). In the case of full or partial outsourcing of control areas and core areas, portfoliomanagement examines whether and how it can ensure that the outsourced activities and processes will be integrated into risk management.

Central outsourcing management includes the following elements:

- Strategic management: monitoring and aligning the services of the service provider with the requirements of the service recipients (e.g. portfoliomanagement departments);
- Business management control: implementing contractually agreed financial measures to ensure service provision in the required quantity and quality;
- Technical-operational control: monitoring the content of operational service provision, including clarifying and following up on technical questions or problems (together with the departments) relating to the service provision or interfaces to adjacent departments;
- Risk management: outsourcing risks are monitored in outsourcing management within the corporate steering department.

The outsourcing management team regularly prepares a report for the Executive Board on the quality of the services provided by the outsourcing companies as well as on their control and monitoring. The general risk report also includes a summary.

In the case of significant outsourcing, in the event of the intended or expected termination of the outsourcing agreement, portfoliomanagement has made provisions to ensure the continuity and quality of the outsourced activities and processes even after termination. For cases of unintended or unexpected termination of these outsourcing activities, which could significantly impair business activities, portfoliomanagement has to review the corresponding courses of action for feasibility. Such reviews are carried out regularly and on a case-by-case basis.

Despite the Covid-19-related restrictions and legal requirements, the service companies fulfilled their contractual obligations in the past financial year.

3.2.6 Market risk

3.2.6.1 Definition

portfoliomanagement defines market price risk as the risk of potential losses in on- and off-balance sheet items caused by changes in interest rates and exchange rates. Due to the structure of the transferred portfolio, the market price risk includes interest rate risks and foreign currency risks.

3.2.6.2 Strategic direction

The long-term asset resolution strategy aims to resolve the transferred portfolio in a way that preserves value and does not make short-term changes in the valuation of the capital markets the basis for management. In order to minimise the risk of potential losses from resolving the transferred portfolio, market risks are reduced as far as economically possible and reasonable.

The strategy for mitigating foreign currency risks set out in the business strategy is implemented by the Treasury & Finance unit by obtaining funding for balance sheet positions in matching currencies and by entering into spot exchange transactions to close open currency positions, taking cost-benefit considerations into account. The uncertain cash flows of the positions acquired (e.g. due to time shifts or default of interest and redemption payments) may also require portfoliomanagement to take action as changes in the expected cash flows must be addressed quickly by modifying and adjusting currency hedging. This is the case, for example, when calculating risk provisions in the event of resulting changes in amortised cost.

Interest rate risks for portfoliomanagement mainly occur on the funding side due to the incoming payments from the loan portfolio, which are capped by the expected ship cash flows. With regard to the loan portfolio, changes in interest rates primarily influences the spread of incoming payments with regard to interest and redemption.

As a result of the risk inventory, market price risk is the risk type with the lowest significance among the key risk types for portfoliomanagement.

3.2.6.3 Management and monitoring

Various interest rate developments influence both the operating interest result and the net asset value of portfoliomanagement. Interest rate risk is the risk of lower than expected interest income or higher than expected interest expense due to changes in market interest rates. Using a present value approach, the change in the market value of the interest exposure book (interest sensitivities) and thus the corresponding economic capital, is calculated by discounting the future cash flows by the current or changed market interest rate. The Basis Point Value (BPV) is used as a sensitivity measure for measuring the absolute change in the market value of the portfolio due to interest rate changes. The BPV shows the effect of a shift in the yield curve by one basis point (0.01%). The periodic net interest income is also considered taking into account an interest rate change of 25 basis points.

In terms of portfoliomanagement's current method for managing interest rate risk, the primary aim is to identify the negative effects of interest rate changes on net interest income and, if necessary, take steps to manage these risks.

In addition, a funding risk may arise in the event of an increase in interest rates. In this case, rising funding costs are offset by constant or at most, slightly higher cash flows from repayments and interest payments by the predominantly non-performing borrowers.
An increased interest expense would therefore be detrimental to income statement, because borrowers would have to use the available financial resources to a greater extent for interest payments at the expense of principal payments if shipping markets were to continue to be in crisis.

Foreign currency risk is also analysed using sensitivities determined on a net present value basis. Foreign currency risks arise from possible changes in the value of open foreign currency positions as a result of changes in the Euro/US dollar exchange rate. A change in the exchange rate directly affects the market value of these positions. Foreign currency sensitivity is calculated using exchange rate fluctuations of 1%, with open items and loans payable on demand included in this calculation. The risk driver for foreign currency risks at the end of the year was the US dollar, as it is the one remaining foreign currency in the portfolio and approx. 99% of the loan portfolio is in this currency.

The management of interest rate risks poses challenges for portfoliomanagement, as the receipt of contractually agreed cash flows depends on the creditworthiness of the borrowers in the portfolio of non-performing loans and therefore future development of the shipping markets. A functioning medium- to long-term asset-liability management is thus determined by the quality of the estimate regarding cash flows at borrower level.

A large part of the ship financing managed by portfoliomanagement feature variable interest rate agreements, so that if interest rates rise, borrower payment obligations would also increase. The enforcement of these contractual claims will not be fully possible due to the portfolio of non-performing loans, resulting in a counterparty credit risk.

The result of the risk calculations is the change in value of the entire portfolio and individual maturity bands in Euro equivalents. As at 31 December 2020, the interest rate risk of portfoliomanagement on a net present value basis amounted to EUR 29 thousand in the event of a shift in the interest rate curves by one basis point. The periodic interest rate risk in the event of a shift in the yield curves by 25 basis points amounts to EUR 2,080 thousand for the calendar year 2021 as at the balance sheet date. Interest rate risks are low in relation to the total volume of assets and liabilities.

Interest rate risk is limited across currencies using a total sensitivity figure and applying individual maturity ranges.

Foreign currency risk management aims to hedge assets denominated in foreign currencies and expected incoming and outgoing payments against exchange rate fluctuations. The strong uncertainty of cash flows on the asset side requires continuous monitoring and, if necessary, the timely use of foreign exchange swaps to enable largely currency-congruent funding of the portfolio. The foreign currency risk of portfoliomanagement in the event of a change in the exchange rate of 1% amounts to EUR 203 thousand as at the balance sheet date. Against the backdrop of funding largely in US dollars, the currency risk as at the balance sheet date of 31 December 2020 is low. In addition, the foreign currency management process within the Treasury & Finance unit ensures that any US dollar positions resulting from payment transactions are converted into Euros in a timely manner.

The Risk Controlling & Strategic Wind-down Planning unit monitors compliance with and utilisation of interest rate changes and foreign currency limits. Limit utilisation is reported in the quarterly risk report to the Executive Board and the Advisory Board.

3.2.7 Other relevant but not material risks

From the most recent overall risk inventory conducted in December 2020, strategic risk, business risk, regulatory risk and insurance risk emerged as further relevant but not material risks for portfoliomanagement.

Strategic risk refers to the risk of unfavourable business performance as a result of (incorrect) fundamental business policy decisions. The strategic goal of portfoliomanagement is to resolve the transferred portfolio in a way that preserves value. The risk of strategic misjudgements is considered to be low due to the business purpose of portfoliomanagement.

Business risk generally refers to the risk of unexpected fluctuations in earnings that are due to changes in the general conditions (e.g. business environment) and cannot be offset by cost reductions. Against this backdrop, the business risk of portfoliomanagement is low, as the effects on earnings due to changed operating conditions are taken into account in other risk types (particularly counterparty credit risk).

Regulatory risk describes the risk arising from the fact that new regulatory provisions or changes to such provisions are usually unforeseeable. Despite the high probability of occurrence, the regulatory risk has a low risk significance for portfoliomanagement as an asset resolution entity.

Insurance risks are risks that arise when insurance payments are not made or not made in full. This may be the case, for example, due to an unenforceable legal position relating to an existing insurance policy or uninsurable risks.

3.2.8 Summary of the risk situation as at 31 December 2020

portfoliomanagement was established to take over risk positions from HSH Nordbank AG (legal successor Hamburg Commercial Bank AG) and to reduce them in a value-preserving manner on the basis of an annually updated resolution plan. A quarterly review is carried out to monitor the implementation and success of the resolution process.

The portfolio mainly comprises loans secured by a total of 144 ships from various shipping segments. The counterparty credit risk is thus materially influenced by the development of the shipping markets, as their development determines the borrowers' ability to service their debt and the opportunities of portfoliomanagement to liquidate the loan collateral. The focus of the loan portfolio is on the container shipping segment, accounting for 78% of the carrying amount.

In addition to the concentration on the shipping market segment, the loan portfolio has a high counterparty concentration on a limited number of borrower units. Thus, the ten largest borrower units account for about 82% of the carrying amount. The place of business of the borrowers is predominantly in Europe, both in terms of the outstanding loan amount (77%) and in terms of the book value (81%), so that the country risk of the portfolio management is fairly low.

The further performance and wind-down of the portfolio are affected primarily by changes in market parameters, the development of the shipping markets as well as ship values and the overall economic situation. These are reflected in the continued existence and increase in overcapacity on the shipping markets. For this reason, the timing and scope of the market recovery could impact the restructuring of individual credit exposures. In particular, the continuing negative impact of the coronavirus on the global economy will have a significant impact on the portfolio. Developments in the market environment are taken into account in the asset resolution plan.

The market risk is low in relation to the total volume of assets and liabilities with a BPV value of EUR 29 thousand and a periodic interest rate risk of EUR 2,080 thousand for the calendar year 2021. As of the balance sheet date, the interest rate risk is therefore insignificant from a risk perspective.

Around 99% of the loans are US dollar-based. Accordingly, most of the funding is obtained in US dollars. The foreign currency risk as of the balance sheet date amounted to EUR 203 thousand and is fairly low from a risk perspective.

As of the balance sheet date, portfoliomanagement has sufficient liquidity. In addition to liquidity from standard market instruments for procuring liquidity, extensive liquidity assistance from the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg is available if required.

As part of the "OpRisk risk inventory", operational risks were identified in terms of their relevance, analysed and assessed in terms of their probability of occurrence and potential damage volume. The risk areas classified as critical essentially belong to the sub-risk types personnel, IT and outsourcing risk.

For the assessment and control of operational risks, portfoliomanagement has established a central loss database, in which the reported losses are recorded and managed on a case-by-case basis.

In the 2020 calendar year, losses totalling EUR 5.3 thousand were identified in connection with operational risks.

In connection with the Covid-19 crisis, there were no known staff absences due to illness in portfoliomanagement in the calendar year 2020. The temporary shift of the workforce to working from home proceeded without any significant issues.

4 INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT SYSTEM RELEVANT FOR THE FINANCIAL REPORTING PROCESS

The processes necessary to prepare data relevant for the financial statements were and are documented in all departments and units and are reinforced by prevention and detection checks in line with the overarching control objectives in order to mitigate risk.

4.1 RISKS RELATED TO THE FINANCIAL REPORTING PROCESS

The risks in the financial reporting process are that financial statements may not provide a true and fair view of the net assets, financial position and results of operations due to unintentional errors or deliberate action (fraud) and/or that the accounting may not comply with the German accepted accounting principles. These risks could adversely impact confidence in portfoliomanagement (reputational damage) and could, result in the imposition of sanctions by the supervisory authorities.

Financial reporting does not provide a true and fair view of the net assets, financial position and results of operations if the figures in the financial statements or disclosures in the notes to the financial statements differ materially from the correct figures. Differences are deemed material if they could individually or collectively influence the economic decisions made by the users of the financial statements on the basis of the financial statements.

4.2 MATERIAL OUTSOURCING IN RELATION TO THE FINANCIAL REPORTING PROCESS

portfoliomanagement has outsourced material aspects of its financial reporting:

- Loan accounting for the loan portfolio taken over in mid-2016 will be carried out by IBM for the first time in 2020 by means of an integrated overall banking system operated by IBM.
- The migration of loan accounting, liability business and the associated processes for servicing the portfolio by IBM took place in the 1st quarter of 2020. The information relevant to the 2020 annual financial statements is mapped for the entire financial year by IBM's systems.
- The following tasks have been outsourced to Revisions- und Treuhand-Kommanditgesellschaft (RuT), Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Kiel:
  - supporting the day-to-day financial accounting (including accounts receivable and accounts payable)
  - fixed asset accounting
  - taking over the tax declaration for value-added tax, corporate tax and trade tax as well as the preparation of the tax accounts and e-balance sheet
  - payroll accounting

The software "Kanzlei-Rechnungswesen pro" and "Lodas" produced by DATEV eG, Nuremberg, are used for outsourcing. Furthermore, RuT is involved in assuring the quality of and controlling the quarterly reports and the annual financial statements of portfoliomanagement and, upon request, provides an opinion on individual financial reporting issues.

The outsourcing arrangements have a significant degree of relevance for the financial reporting process and the ICS related to financial reporting.

portfoliomanagement implemented additional measures to mitigate the risks in the financial reporting process related to the outsourcing of activities.

In addition, please refer to the information in the risk report, section 3.2.5.4 Outsourcing.

4.3 ORGANISATION OF THE INTERNAL CONTROL SYSTEM (ICS)

The Executive Board is responsible for the propriety of the financial reporting process. For this purpose, portfoliomanagement set up an ICS entity, which is located in the Business Management department. It ensures that the (accounting-related) ICS at portfoliomanagement is established and developed further on a regular basis.

The new product process (NPP) under the process responsibility of the Risk Controlling & Strategic Wind-down Planning unit is carried out with the involvement of the Treasury & Finance unit to ensure that the risks related to financial reporting are minimised in accordance with MaRisk (minimum requirements for risk management) when new products are introduced (making sure that the products can be properly presented in the financial reporting system).

The basic structure of the written regulations, including the process maps of the individual departments, is defined in the organisational manual of portfoliomanagement. The management of the individual departments are responsible for the identification of risks, the identification of control requirements and the execution of controls in accordance with these written regulations. A process owner specified in writing is responsible for desingning and implementing the controls.

The ICS-framework of portfoliomanagement sets out that the ICS-assessment must be gone through once a year in accordance with the specifications of the Executive Board. The ICS-framework was further revised in 2020 and adopted by the Executive Board on 29 September 2020. In 2020, an ICS-assessment was carried out in accordance with the ICS-framework. The results were presented to the Executive Board and the Advisory Board.

4.4 CONTROLS TO MINIMISE THE RISK OF ERRORS IN FINANCIAL REPORTING

portfoliomanagement's ICS relevant to the financial reporting process has a large number of internal controls. The controls are carried out on an item- and risk-oriented basis. The dual control principle is applied in the preparation of the annual financial statements and the management report.

The appropriateness and effectiveness of IBM's accounting-related ICS with regard to outsourcing-relevant matters was audited by the auditing institution Mazars GmbH & Co. KG, which was commissioned by IBM, in accordance with IDW PS 951 new version Type 2 and ISAE 3402 Type 2. The service provider IBM has implemented a suitable ICS relevant to the financial reporting system and portfoliomanagement has satisfied itself of the effectiveness of this system by inspecting the documentation and information available to it.

The contractual regulations with RuT and its internal organisation also ensure a functioning ICS at RuT. portfoliomanagement satisfied itself of this on the basis of the audit report prepared by Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft in accordance with IDW AuS 951 (new version) and various discussions.

The structural and process organisation should ensure completeness, accuracy and authorisation, including access to data related to financial reporting.

4.5 INTERNAL AUDIT UNIT

The Internal Audit Unit at portfoliomanagement is a dedicated and independent entity. Its task is to carry out systematic and regular audits to verify that the entity complies with statutory and regulatory requirements, that risk management and the ICS are appropriate and effective, and that processing is carried out properly. Internal Audit's auditing activities take into account all of portfoliomanagement's activities and processes. These activities are based on risk-based annual audit planning that is approved by the entire Executive Board. The Internal Audit Unit also monitors and validates the timely rectification of the problems identified in audit findings as part of reviews (follow-up).

ANNUAL FINANCIAL STATEMENTS

of hsh portfoliomanagement AöR

ANNUAL BALANCE SHEET

as at 31 December 2020

ASSETS

in Euro		31 Dec. 2020	31 Dec. 2019
1. Cash reserve			
Balances with central banks		9,193,999.07	7,285,016.75
thereof with Deutsche Bundesbank EUR 9,193,999.07 (previous year: EUR 7,285,016.75)			
2. Loans and advances to banks			
a) Payable on demand	86,323,559,22		15,098,866.21
b) Other loans and advances	0,00		28,487,330.13
		86,323,559.22	43,586,196.34
3. Loans and advances to customers		991,794,256.62	1,426,916,527.79
4. Intangible fixed assets			
Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets		40,066.00	149,728.00
5. Tangible fixed assets		23,981.12	41,675.00
6. Other assets		928,719.82	904,167.47
7. Prepaid expenses		2,187,109.60	4,310,743.28
8. Deficit not covered by equity		774,776,003.73	540,151,396.50
TOTAL ASSETS		**1,865,267,695.18**	**2,023,345,451.13**

EQUITY AND LIABILITIES

in Euro		31 Dec. 2020	31 Dec. 2019
1. Liabilities to banks			
With agreed maturity or notice period		0.00	138,581,105.47
2. Liabilities to customers			
Other liabilities			
Payable on demand		17,357.16	0.00
3. Debt securities issued			
Bonds issued		1,861,937,677.53	1,880,658,439.20
4. Other liabilities		1,030,882.35	1,735,591.74
5. Deferred income		522,865.39	267,803.64
6. Provisions			
Other provisions		1,758,912.75	2,102,511.08
7. Equity			
a) Net loss for the year	-774,776,003.73		-540,151,396.50
b) Deficit not covered by equity	774,776,003.73		540,151,396.50
		0.00	0.00
TOTAL EQUITY AND LIABILITIES		**1,865,267,695.18**	**2,023,345,451.13**
Other obligations			
Irrevocable loan commitments		12,532,000.48	12,771,200.76

INCOME STATEMENT

for the period from 1 January 2020 to 31 December 2020

in Euro			**1 Jan.–31 Dec. 2020**	**1 Jan.–31 Dec. 2019**
1. Interest income from				
Lending and money market transactions		43,129,276.46		61,954,321.90
thereof negative interest income deducted EUR 192,993.81 (previous year: EUR 103,296.78)				
2. Interest expenses		-16,421,893.23		-38,997,584.74
thereof negative interest expenses deducted EUR 5,380.56 (previous year: EUR 8,000.00)				
			26,707,383.23	**22,956,737.16**
3. Commission income		377,643.68		674,224.62
4. Commission expenses		-412,070.05		-536,661.90
			-34,426.37	**137,562.72**
5. Other operating income			1,656,503.13	2,284,560.51
6. General and administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	-4,939,449.12			-5,253,308.84
ab) Social securit, post-employment and other employee benefit costs	-909,589.54			-947,054.19
		-5,849,038.66		-6,200,363.03
therof in respect of postemployment benefits EUR 231,143.64 (previous year: EUR 241,583.54)				
b) Other administrative expenses		-12,563,536.68		-18,823,706.12
			-18,412,575.34	-25,024,069.15
7. Depreciation, amortization and write-downs of tangible and intangible fixed assets			-141,850.15	-137,712.04
8. Other operating expenses			-776,373.48	-390,586.66
9. Write-downs of and valuation allowances on loans, advances, receivables and certain securities, and additions to loan loss provisions			-243,621,715.91	-5,329,546.99
10. Result from ordinary activities			-234,623,054.89	-5,503,054.45
11. Other taxes not included in item 8			-1,552.34	-1,587.56
12. NET LOSS			**-234,624,607.23**	**-5,504,642.01**
13. Loss brought forward from the previous year			-540,151,396.50	-534,646,754.49
14. NET ACCUMULATED LOSS			**-774,776,003.73**	**-540,151,396.50**

NOTES

GENERAL DISCLOSURES AND EXPLANATIONS

portfoliomanagement and its sponsors

hsh portfoliomanagement AöR, Kiel, (hereinafter referred to as "portfoliomanagement") was established as an institution under Public Law with legal capacity pursuant to section 8b of the Financial Market Stabilisation Fund Act (Finanzmarktstabilisierungsfondsgesetz – FMStFG) when the State Treaty between the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein came into force on 22 December 2015.

portfoliomanagement is not considered a bank or financial services institution and does not conduct any business requiring authorisation by national or international supervisory authorities.

The sponsors of portfoliomanagement are – with equal shares – the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein. The inaugural meeting of the Board of Sponsors took place on 19 January 2016.

portfoliomanagement was entered in the commercial register of the Kiel District Court under HRA 9377 KI on 8 June 2016.

GENERAL FINANCIAL REPORTING DISCLOSURES

In accordance with section 2(7) of the State Treaty, portfoliomanagement shall prepare annual financial statements and a management report within the first three months after the end of a financial year.

There is no obligation to prepare consolidated financial statements. The Disclosure Act does not apply.

The annual financial statements of portfoliomanagement were prepared in accordance with section 18(2) of the Statute in accordance with the provisions of sections 242 ff. HGB (German Commercial Code) for large corporations, the supplementary regulations for credit institutions pursuant to sections 340 ff. HGB and the Ordinance on Accounting for Banks and Financial Services institutions (RechKredV).

The annual financial statements as at 31 December 2020 consist of a balance sheet as at 31 December 2020, an income statement for the period from 1 January to 31 December 2020 and the notes. In addition, the annual financial statements were expanded to include a cash flow statement and a statement of changes in equity in accordance with section 264(1) sentence 2 HGB (German Commercial Code) in conjunction with section 264d HGB. portfoliomanagement is classified as a publicly traded entity as it obtained an admission to the regulated market in the 2017 financial year and issued bearer bonds listed on the regulated market of the Luxembourg Stock Exchange for the first time in the second half of 2017.

A management report has also been prepared.

The amounts as of 31 December 2019 were used as comparative amounts for the balance sheet. With regard to the income statement, the comparative period of the previous year (1 January to 31 December 2019) was used.

For the structure of the balance sheet, portfoliomanagement has used Form 1 and for the income statement Form 3 (vertical presentation format) in accordance with section 2(1) RechKredV (accounting regulations for credit institutions).

Rounding differences of ± one unit (Euro) may occur in the tables contained in the notes.

ACCOUNTING POLICIES

Accounting and measurement are based on the going-concern assumption. The going-concern assumption is based on the fact that the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein, as the responsible bodies pursuant to Article 5(2) of the State Treaty, ensure that portfoliomanagement remains fully operational as an institution for the duration of its existence (institutional liability). Furthermore, the owners shall be liable for the liabilities of portfoliomanagement to third parties without limitation and as joint and several debtors pursuant to section 5(1) of the State Treaty if and to the extent that creditors cannot obtain satisfaction from the assets of portfoliomanagement (guarantee liability).

Assets, liabilities and prepaid expenses are recognised in accordance with sections 246 ff. and 340 ff. HGB (German Commercial Code). Assets, liabilities and pending transactions are measured based on the principles in sections 252ff. HGB in conjunction with sections 340e ff. of the HGB.

The loan portfolio was fully allocated to current assets upon addition and is reported under loans and advances to customers. The allocation to current assets was made irrespective of the remaining term of the receivables taken over, as these receivables were acquired for the purpose of reduction and are not intended to serve business operations on a permanent basis.

Receivables are reported at the lower of nominal value or acquisition cost and, if applicable, reduced by individual and general value adjustments to be made. The pro rata recoverable interest determined as at the balance sheet date is recognised with the underlying receivable.

Loans and advances to customers from ship financing are measured on the basis of amortised cost and the defined exposure strategy, which is largely determined by the resolution plan. When determining the risk provision, the achievable surpluses from the operation of the ship as well as the proceeds achievable in the context of a realisation of the respective ship collateral are used. This was based on the forecasts published by recognised market data providers for benchmark ships on the future development of the achievable surpluses from ship operation as well as current market values from recognised ship appraisers less a discount for ancillary costs of disposal expected to be incurred for the respective ships. Uncertainty regarding the forecast development of surpluses from ship operation and the market values of ship collateral is taken into account by means of a risk discount on the forecasts of future charter rates determined by external providers as well as on the market values of ship collateral, which increases over time.

The assumptions and estimates required in connection with the valuation of the loans are subject to uncertainties that may be amplified by the effects of the coronavirus pandemic. For example, significant uncertainty factors with regard to the development of risk provisions are the development of the relevant market parameters such as freight and charter rates, ship values, the US dollar exchange rate and the development of the overall economic environment. Thus, actual future events may deviate from the estimates. This can have a not insignificant impact on the net assets, financial position and earnings situation.

Uncollectable receivables are written off.

Loans and advances to banks are carried at their principal amount.

Purchased intangible assets and Tangible fixed assets are amortised on a straight-line basis over their expected useful lives.

The other provisions take into account all recognisable risks and uncertain obligations on the basis of a prudent commercial assessment with the necessary settlement amount. Provisions with a remaining term of more than one year are discounted on the basis of the interest rates published monthly by the Deutsche Bundesbank (seven-year average).

Liabilities are measured at their settlement amount. The proportionate interest calculated at the reporting date is recognised with the underlying liability.

Assets and liabilities listed in foreign currencies are translated into the reporting currency (Euro) in accordance with section 256a HGB (German Commercial Code) in conjunction with section 340h HGB at the ECB reference rate on 31 December 2020. Assets and liabilities denominated in foreign currencies are classified as specially covered per currency in accordance with section 340h HGB. Insofar as special coverage exists, all expenses and income from foreign currency translation are shown netted in other operating expenses/income in accordance with section 340h HGB in conjunction with the IDW statement on accounting "Peculiarities of foreign currency translation under commercial law at institutions" (IDW RS BFA 4). Expenses and income in foreign currencies have been translated at the relevant spot rate.

The assessment of a possible need for provisions according to section 340a in conjunction with section 249(1) sentence 1 alternative 2 HGB for a surplus of obligations from interest-related transactions in the banking book (interest book) was carried out in accordance with the statement of the Banking Committee IDW BFA 3 using an income statement-oriented approach. After taking into account funding, risk and administrative costs, there was no commitment surplus. The formation of a provision was therefore not necessary.

Negative interest on assets is offset against interest income, negative interest on liabilities against interest expenses. Uncollectible interest income has not been recognised in the income statement.

portfoliomanagement has not made any use of the option to recognise deferred tax assets in the financial statements as at 31 December 2020.

portfoliomanagement makes use of the option pursuant to section 340f(3) HGB in conjunction with section 32 sentence 2 RechKredV ("cross-offsetting option").

The cash flow statement has been prepared in accordance with the classification format in Appendix 2 of GAS 21, which covers the sector-specific requirements for the cash flow statements of credit and financial services institutions.

The statement of changes in equity has been prepared in accordance with GAS 22.

BALANCE SHEET DISCLOSURES

1. Cash reserve

The cash reserve is made up entirely of credit balances at the Deutsche Bundesbank amounting to EUR 9,194 thousand (31 December 2019: EUR 7,285 thousand).

2. Loans and advances to banks

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Payable on demand	86,324	15,099
Other loans and advances	0	28,485
	86,324	**43,584**
Pro rata interest	0	2
TOTAL	**86,324**	**43,586**
Of which:		
Subordinated loans and advances	0	0
Due within		
/ 3 months	0	28,485
/ More than 3 months up to 1 year	0	0
/ More than 1 year up to 5 years	0	0
/ More than 5 years	0	0

3. Loans and advances to customers

in EUR thousand	31 Dec. 2020	31 Dec. 2019
TOTAL	**991,794**	**1,426,917**
Of which:		
Pro rata interest	8,470	3,666
Loans and advances with indefinite maturity	0	0
Subordinated loans and advances	0	0
Payable on demand	11,900	107,390
Due within		
/ 3 months	19,426	6,498
/ More than 3 months up to 1 year	179,223	20,332
/ More than 1 year up to 5 years	451,569	717,141
/ More than 5 years	321,206	571,890

The basis for determining the due dates was the legal maturities of the nominal loans and advances relative to their carrying amounts.

4. Fixed assets

Changes in fixed assets

in EUR thousand	Intangible fixed assets	Tangible fixed assets
Cost 1 Jan. 2020	**392**	**150**
Additions	0	14
Disposals	0	0
31 Dec. 2020	392	164
Accumulated depreciation / amortizations 1 Jan. 2020	**242**	**108**
Additions	110	32
Disposals	0	0
31 Dec. 2020	352	140
Depreciation / amortization during the financial year	**110**	**32**
CARRYING AMOUNT, 31 DEC. 2020	**40**	**24**
Carrying amount, 31 Dec. 2019	**150**	**42**

The intangible fixed assets are exclusively standard software acquired for consideration. Intangible assets are amortised on a straight-line basis over their useful lives of three to five years.

Tangible fixed assets comprise individual assets and an aggregate item for low-value assets with acquisition costs of between EUR 250.00 and EUR 1,000.00 and consist exclusively of office and operating equipment. Tangible fixed assets are depreciated on a straight-line basis over a period of three to five years. Tangible fixed assets include operating and office equipment amounting to EUR 13 thousand (previous year: EUR 8 thousand).

5. Other assets

The following items are recognised under other assets:

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Receivables from the tax office	691	885
Receivables in connection with the sale of ships	210	0
Other	28	19
TOTAL	**929**	**904**

Receivables from the tax office and VAT refund claims are attributable to withheld investment income taxes and the solidarity surcharge thereon.

6. Prepaid expenses

Prepaid expenses and deferred charges are composed as follows:

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Discount from the issuing business	1,747	3,599
Prepaid invoice amounts	440	712
TOTAL	**2,187**	**4,311**

The discount from the issuing business is attributable to debt securities in issue. This amount also includes issuing costs, which are allocated over the same term.

7. Deficit not covered by equity

For information on the deficit not covered by equity, please refer to the details on the guarantor liability and institutional liability of the Federal States of Hamburg and Schleswig-Holstein.

The net loss of EUR 774,776 thousand (previous year: EUR 540,151 thousand) is made up of the loss brought forward from the 2019 financial year (EUR 540,151 thousand) and the net loss for 2020 (EUR 234,625 thousand).

8. Liabilities to banks

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Payable on demand	0	0
With agreed maturity or notice period	0	137,974
	0	137,974
Pro rata interest	0	607
TOTAL	**0**	**138,581**
Due within		
/ 3 months	0	48,959
/ More than 3 months up to 1 year	0	89,015
/ More than 1 year up to 5 years	0	0
/ More than 5 years	0	0

9. Liabilities to customers

The item relates in full to liabilities due on demand from overpayments by a customer in the amount of EUR 17 thousand (31 December 2019: EUR 0 thousand).

10. Debt securities issued

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Bond issued	1,861,938	1,880,658
TOTAL	**1,861,938**	**1,880,658**
Of which:		
Amounts due in the following year	1,203,048	1,035,581

These are bearer bonds in the amount of EUR 400,000 thousand (previous year: EUR 400,000 thousand) and in the amount of USD 1,000,000 thousand (EUR 814,930 thousand) (previous year: USD 1,000,000 thousand and EUR 890,155 thousand). In addition, short-term commercial papers were issued in the amount of EUR 450,000 thousand (previous year: EUR 85,000 thousand) and in the amount of USD 240,000 thousand (EUR 195,583 thousand) (previous year: USD 566,000 thousand (EUR 503,827 thousand). Proportionate interest of EUR 1,425 thousand (previous year: EUR 1,676 thousand) is also reported under this item.

11. Other liabilities

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Trade payables	900	1,566
Taxes and social security contributions	130	160
Other	1	10
TOTAL	**1,031**	**1,736**

Trade payables mainly relate to outsourcing costs (EUR 443 thousand; previous year: EUR 1,141 thousand) and legal and consulting costs (EUR 218 thousand; previous year: EUR 181 thousand).

The taxes and social security contributions relate to amounts not yet paid for the month of December 2020.

12. Deferred income

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Premium from issuing business	269	153
Other	254	115
TOTAL	**523**	**268**

Premiums from issuing business relate to bearer bonds and commercial papers issued. They are reversed over the term of the bonds.

13. Other provisions

in EUR thousand	Portfolio 1 Jan. 2020	Addition	Reversal	Use	Portfolio 31 Dec. 2020
Invoices outstanding	504	434	96	361	481
Auditing costs	677	439	55	622	439
Preparation of financial statements	265	276	0	239	302
Lending business	242	0	0	20	222
Expected losses from executory spot transactions	197	133	0	197	133
Personnel	153	83	18	133	85
Archiving	41	12	0	0	53
Preparation/publication of annual report	13	30	0	13	30
BaFin levy	11	3	0	0	14
TOTAL	**2,103**	**1,410**	**169**	**1,585**	**1,759**

Provisions for outstanding invoices mainly relate to outsourced services in the IT area as well as project-related audit activities. The provisions for auditing expenses relate to expenses for the auditing of the annual financial statements. Preparation costs for the annual financial statements are accounted for by the internal costs of preparation and the external costs through an outsourcing service provider. Loan loss provisions relate to obligations in connection with the acquired loan portfolio. The measurement of a spot foreign exchange transaction not yet settled on the balance sheet date resulted in a executory negative result, which was been deferred. Personnel provisions relate to performance-related remuneration and residual holiday entitlements. Provisions for archiving costs have been recognised to cover the storage of business records for the statutory retention periods. These provisions have been discounted.

14. Other obligations

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Irrevocable loan commitments	12,532	12,771
TOTAL	**12,532**	**12,771**

The irrevocable loan commitments are commitments for funding that have been approved but not yet drawn down.

Based on forecasts made as of the reporting date, portfoliomanagement estimates the credit risk arising from drawdowns on irrevocable loan commitments to be mostly low.

15. Total amount of assets and liabilities denominated in foreign currency

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Assets		
Loans and advances to banks	78,514	41,128
Loans and advances to customers	985,842	1,414,626
Other assets	210	0
	1,064,566	**1,455,754**
Liabilities		
Liabilities to banks	0	138,581
Liabilities to customers	17	0
Debt securitised issued	1,011,835	1,395,555
Other liabilities	6	4
Other obligations	12,532	12,771
	1,024,390	**1,546,911**

INCOME STATEMENT DISCLOSURES

1. Net interest income

in EUR thousand	1 Jan.–31 Dec. 2020	1 Jan.–31 Dec. 2019
Interest income	**43,129**	**61,954**
Of which:		
Lending and money market transactions	43,322	62,057
Negative interest shown separately	-193	-103
Interest expenses	**16,422**	**38,997**
Of which:		
Lending and money market transactions	1,834	668
Positive interest shown separately	-5	-8
Debt securitised issued	14,593	38,337
NET INTEREST INCOME, TOTAL	**26,707**	**22,957**

Interest income from lending transactions is largely attributable to interest amounts received and, to a lesser extent, to recoverable interest receivables. The majority of the contractually agreed interest amounts from lending transactions have not been recognised in the income statement because they are not expected to be collectible.

2. Net commission income

in EUR thousand	1 Jan.–31 Dec. 2020	1 Jan.–31 Dec. 2019
Commission income	**378**	**674**
Of which:		
Lending business	378	674
Commission expenses	**412**	**536**
Of which:		
Securities and issuing business	367	514
Other	45	22
NET COMMISSION INCOME, TOTAL	**-34**	**138**

Commission income is attributable to the lending business and relates to processing and restructuring fees. A small amount was also recognised from vessel flagging-out fees.

Issuing costs from the securities business are recognised on an accrual basis and allocated over the same term.

3. Other operating income

The following items are recorded under other operating income in the reporting year:

in EUR thousand	1 Jan.–31 Dec. 2020	1 Jan.–31 Dec. 2019
Third-party cost reimbursements	1,394	1,659
Income from the reversal of provisions	169	284
VAT refunds	0	230
Other	94	112
TOTAL	**1,657**	**2,285**

Cost reimbursements from third parties mainly relate to out-of-pocket legal expenses and insurance premiums.

Income from the reversal of provisions is attributable to outstanding invoices, auditing costs and personnel provisions.

4. General administrative expenses

The breakdown of general administrative expenses is as follows:

in EUR thousand	1 Jan.–31 Dec. 2020	1 Jan.–31 Dec. 2019
Personnel expenses	5,849	6,200
Other administrative expenses	12,564	18,824
TOTAL	**18,413**	**25,024**

Personnel expenses were incurred for an average of 58 (previous year: 63) employees in portfoliomanagement.

Other administrative expenses break down as follows:

in EUR thousand	1 Jan.–31 Dec. 2020	1 Jan.–31 Dec. 2019
Material outsourcing activities	6,087	7,298
Legal advice	1,214	1,772
Support for ongoing business operations	1,068	1,855
Preparation and auditing of financial statements	881	1,169
Organisational development	703	971
Restructuring costs	561	333
Insurance premiums	385	388
Rent office space	370	376
Rating	253	152
Rent/maintenance hardware and software	251	232
Other personnel costs	208	318
Market data communication	184	196
Migration portfolio management	157	2,609
Personnel, IT, strategy and other consulting	17	761
Register corrections	0	36
Other	225	358
TOTAL	**12,564**	**18,824**

Expenses for material outsourcing were incurred almost exclusively for servicing the acquired loan portfolio and for services in connection with the provision of the IT infrastructure. Expenses for legal advice mainly relate to the lending business and were partly charged on; the related income was recognised in the income statement item as other operating income. Support for ongoing business operations primarily involves outsourcing the reporting process to a service provider as well as outsourced line activities of IT operations and the Legal and Compliance department. Expenses for the preparation and auditing of financial statements relate to the costs for the preparation of the annual financial statements as at 31 December 2020, their audit and other auditing services. Expenses for the development of the organisation include services in the context of the transfer of essential administrative activities to support portfolio processing to the new service provider IBM Deutschland GmbH and the migration of the loan and treasury portfolios to its inventory-managing systems. Restructuring costs include expenses for portfolio insurance, valuation reports and consulting services.

5. Depreciation, amortisation and write-downs of tangible and intangible fixed assets

The following scheduled depreciations and write-downs were made in the reporting year:

in EUR thousand	1 Jan.–31 Dec. 2020	1 Jan.–31 Dec. 2019
Tangible fixed assets	32	30
Intangible fixed assets	110	108
TOTAL	**142**	**138**

6. Other operating expenses

Other operating expenses break down as follows:

in EUR thousand	1 Jan.–31 Dec. 2020	1 Jan.–31 Dec. 2019
Net foreign currency translation income / expenses	760	389
Other	16	2
TOTAL	**776**	**391**

The application of section 340h HGB in conjunction with section 256a HGB results in a net foreign currency translation loss of EUR 760 thousand (previous year: EUR 389 thousand).

7. Write-downs of and valuation allowances on loans, advances, receivables and certain securities as well as additions to loan loss provisions

This item shows the net loss from net loan loss allowances and provisions. It amounts to EUR 243,622 thousand (previous year: EUR 5,330 thousand).

OTHER DISCLOSURES

1. Other financial obligations

The other financial obligations that are significant for the assessment of the financial position relate to the following rental and service agreements:

Type of obligation / contractueal term end in EUR thousand	**Payments 1 Jan. 2021–31 Dec. 2021**	**Total payments over the fixed term**
Leases for office space	329	1,492
Service contracts related to outsourcing	2,560	4,065
TOTAL	**2,889**	**5,557**

2. Auditor's fee

Activities of the auditor

KPMG AG Wirtschaftsprüfungsgesellschaft audited the annual financial statements of portfoliomanagement as at 31 December 2020. In addition, quality assurance audits of accounting-specific issues were performed that were directly prompted by or used in the context of the audit of the annual financial statements as at 31 December 2020. In addition, KPMG AG Wirtschaftsprüfungsgesellschaft provided project-accompanying quality assurance reviews in connection with the introduction of a new loan accounting system as well as other confirmation services in the context of issuing a comfort letter in connection with the debt issuance programme.

Auditor’s fees as defined in IDW AcP HFA 36 new version

The auditor's fee amounted to EUR 553 thousand in the reporting period (previous year: EUR 733 thousand) and was incurred for the following services:

in EUR thousand	**1 Jan.–31 Dec. 2020**	**1 Jan.–31 Dec. 2019**
Audit services	520	733
Other confirmation services	33	0
TOTAL	**553**	**733**

The audit fees of KPMG AG Wirtschaftsprüfungsgesellschaft in the 2020 financial year were incurred for the audit of the 2020 annual financial statements (EUR 397 thousand; previous year: EUR 397 thousand), for an audit of the service-related internal control system for portfoliomanagement at an outsourcing service provider (EUR 0 thousand; previous year: EUR 201 thousand) and for a quality assurance audit of accounting-specific issues (EUR 12 thousand; previous year: EUR 11 thousand) and for a project-related quality assurance carried out in the financial year in connection with the introduction of a new loan accounting system (EUR 106 thousand; previous year: EUR 85 thousand).

Other confirmation services (EUR 33 thousand; previous year: EUR 0 thousand) were provided in the context of issuing a comfort letter in connection with the debt issuance programme.

The audit services include subsequent charges for the previous year in the amount of EUR 5 thousand (previous year: EUR 39 thousand).

3. Number of employees

The average number of employees at portfoliomanagement was as follows (excluding the Executive Board):

	1 Jan.–31 Dec. 2020			1 Jan.–31 Dec. 2019		
Headcount	**Full-time employees**	**Part-time employees**	**Total**	**Full-time employees**	**Part-time employees**	**Total**
male	19	9	28	24	7	31
female	15	15	30	16	16	32
TOTAL	**34**	**24**	**58**	**40**	**23**	**63**

4. Governing bodies of portfoliomanagement

EXECUTIVE BOARD
Ulrike Helfer, Executive Director
Dr. Karl-Hermann Witte, Executive Director

ADVISORY BOARD
Dr. Sibylle Roggencamp, Senate Director, Ministry of Finance of Free and Hanseatic City of Hamburg (Chairwoman until 31 December 2020; Deputy Chairwoman from 1 January 2021)
Udo Philipp, State Secretary for Ministry of Finance of the Federal State of Schleswig-Holstein (Deputy Chairman until 31 December 2020; Chairman from 1 January 2021)
Prof. Dr. Stephan Schüller, businessman
Corinna Warlich, German Public Auditor, Tax Consultant

BOARD OF SPONSORS
Monika Heinold, Minister of Finance of the Federal State of Schleswig-Holstein (Chairwoman until 31 December 2020)
Dr. Andreas Dressel, Finance Senator of the Free and Hanseatic City of Hamburg (Chairman from 1 January 2021)

Pursuant to article 14(2) of the Statute, the chairmanship and vice-chairmanship of the Advisory Board shall alternate annually between the sponsors.

The chairmanship of the Board of Sponsors also rotates annually between the sponsors in accordance with article 16(2) of the Statute.

5. Other posts held by the members of the Executive Board and by employees

As at the balance sheet date, the members of the Executive board and employees held no other posts on statutory supervisory bodies of large corporations.

6. Loans to members of governing bodies

As at the balance sheet date, there were no loans to members of governing bodies.

7. Benefits paid to governing bodies

The remuneration of the Executive Board for the 2020 financial year is as follows:

	Dr. Karl-Hermann Witte	Ulrike Helfer	Total
Composition in EUR thousands	**1 Jan.–31 Dec. 2020**	**1 Jan.–31 Dec. 2020**	**1 Jan.–31 Dec. 2020**
Non-performance related remuneration	222	332	554
Non-monetary benefits	4	9	13
Performance-related remuneration [1]	42	42	84
Long-term incentive components	0	0	0
TOTAL	**268**	**383**	**651**

[1] Without taking into account a partial release of EUR 7 thousand (Dr. Witte) and EUR 11 thousand (Ms Helfer) of the provision formed in the previous year.

In addition to their fixed salary, the Executive Board receives an employer-funded defined contribution pension plan. This amounts to 10% of the annual fixed salary and is paid to an external pension provider. Both components are reported as non-performance-related remuneration. The non-cash benefits result from the use of company cars. Performance-related remuneration is granted depending on the Executive Board's attainment of targets. The final amount had not yet been determined at the time the annual financial statements were prepared and will be determined by the Advisory Board. The above amounts refer to the amounts recognised in the 2020 financial year. Components with a long-term incentive effect do not form part of the contracts.

EVENTS OF PARTICULAR SIGNIFICANCE AFTER THE BALANCE SHEET DATE

After the balance sheet date, the container markets continued to recover significantly in early 2021. These positive developments represent a value-creating event after the balance sheet date. From today's perspective, portfoliomanagement therefore expects a notable release of risk provisions in the first quarter of 2021.

Kiel, dated 24 March 2021

Ulrike Helfer Dr. Karl-Hermann Witte

CASH FLOW STATEMENT

FOR THE FINANCIAL YEAR 2020

in EUR thousand			1 Jan. –31 Dec. 2020[1)]	1 Jan. –31 Dec. 2019[1)]
1.		Profit / loss for the period	-234,625	-5,505
2.	+/-	Depreciation, amortization and write-downs on items of fixed assets / reversals of such write-downs	142	138
3.	+/-	Valuation allowances on loans, advances and receivables / reversals of such valuation allowances	247,036	14,100
4.	+/-	Increase/decrease in provisions	-344	-732
5.	+/-	Other non-cash expenses/income	-184,493	-31,015
6.	-/+	Increase/decrease in loans and advances to banks	-40,008	33,337
7.	-/+	Increase/decrease in loans and advances to customers	274,682	98,365
8.	-/+	Increase/decrease in other assets relating to operating activities	2,103	-226
9.	+/-	Increase/decrease in liabilities to banks	-139,359	139,966
10.	+/-	Increase/decrease in liabilities to customers	17	-88
11.	+/-	Increase/decrease in debt securitised issued	82,879	-240,493
12.	+/-	Increase/decrease in other liabilities relating to operating activities	-450	-1,794
13.	+/-	Interest expenses/interest income	-26,707	-22,957
14.	+	Interest and dividend payments received	38,329	58,851
15.	-	Interest paid	-17,279	-40,529
16.	**=**	**Cash flows from operating activities (total of lines 1. to 15.)**	**1,923**	**1,418**
17.	-	Payments to acquire tangible fixed assets	-14	-1
18.	-	Payments to acquire intangible fixed assets	0	-21
19.	**=**	**Cash flows from investing activities (total of lines 17. to 18.)**	**-14**	**-22**
20.		Net change in cash funds (total lines 16. + 19.)	1,909	1,396
21.	+	Cash funds at beginning of period	7,285	5,889
22.	**=**	**CASH FUNDS AT END OF PERIOD (TOTAL OF LINES 20. TO 21.)**	**9,194**	**7,285**

			31 Dec. 2020[1)]	31 Dec. 2019[1)]
		COMPOSITION OF CASH FUNDS		
		Balances with central banks	9,194	7,285
	=	**CASH FUNDS**	**9,194**	**7,285**

[1)] Figures taking into account rounding differences

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR 2020

in EUR thousand	Loss brought forward	Net loss for the year	Net accumulated losses / deficit not covered by equity
Equity as at 1 Jan. 2019	-549,751	15,104	-534,647
Appropriation of profit / loss 2018	15,104	-15,104	0
Net loss for the year 2019	0	-5,505	-5,505
EQUITY AS AT 31 DEC. 2019	**-534,647**	**-5,505**	**-540,151**
Equity as at 1 Jan. 2020	-534,647	-5,505	-540,151
Appropriation of profit / loss 2019	-5,505	5,505	0
Net loss for the year 2020	0	-234,625	-234,625
EQUITY AS AT 31 DEC. 2020	**-540,151**	**-234,625**	**-774,776**

INDEPENDENT AUDITOR'S REPORT

To hsh portfoliomanagement AöR, Kiel

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND THE MANAGEMENT REPORT

Opinions

We have audited the annual financial statements of hsh portfoliomanagement AöR, which comprise the balance sheet as at 31 December 2020, the statement of profit and loss, the statement of cash flows and the statement of changes in equity for the financial year from 1 January to 31 December 2020, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of hsh portfoliomanagement AöR for the financial year from 1 January to 31 December 2020.

In our opinion, on the basis of our knowledge obtained in the audit,

/ the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to institutions and give a true and fair view of the assets, liabilities and financial position of the institution as at 31 December 2020 and of its financial performance for the financial year from 1 January to 31 December 2020 in compliance with German Legally Required Accounting Principles, and

/ the accompanying management report as a whole provides an appropriate view of the institution's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Section 322 (3) sentence 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's

Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the institution in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the financial year from 1 January to 31 December 2020. These matters were considered in the context of our audit of the financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Determination of the amount of specific valuation allowances on loans and advances to customers from ship financing

For the accounting and valuation principles applied, we refer to the information in the notes under the section "Accounting policies".

The financial statement risk

hsh portfoliomanagement AöR's receivables from customers of EUR 992 million (previous year: EUR 1,427 million) are almost exclusively receivables from ship financing. These were taken over by Hamburg Commercial Bank AG, Hamburg, in 2016 for the purpose of processing ship financing. The major part of the ship financing portfolio was already non-performing when it was taken over by hsh portfoliomanagement AöR.

The determination of the amount of the required individual value adjustments on receivables from customers from ship financing is subject to discretion. The amount of specific loan loss provisions from ship financing is determined on the basis of the expected future cash flows in the form of repayments on the respective receivable and in the form of estimated realisation proceeds from the ships serving as collateral.

The estimation of the expected future cash flows is based on the commitment strategy defined by hsh portfoliomanagement AöR. The exposure strategy is largely determined by the overarching resolution plan of hsh portfoliomanagement AöR. The expected future cash flows from the operation of the ships are estimated on the basis of forecast data from an external market data provider. hsh portfolio AöR counters the uncertainty of forecasts, which increases over time, by applying safety margins. At the realisation date determined depending on the exposure strategy, the expected cash flows from the expected proceeds from the realisation of the financed ships are determined at market value based on the assessment of external experts and taking into account a realisation discount. The above estimates are subject to material uncertainties, which may be amplified by the impact of the coronavirus pandemic.

Incorrect assumptions regarding the amount of the expected cash flows (depending, among other things, on forecasts of the future development of charter rates, operating costs and the market values of the financed ships) mean that the default risks are not adequately accounted for by specific valuation allowances and the receivables from customers arising from ship financing are not valued correctly in the financial statements. Against this background, it was of particular importance for our audit that the assumptions were made in accordance with the applicable accounting principles.

Our audit approach

Using a risk-based audit approach, we based our opinion on both control-based and expressive audit procedures.

As part of control-based audit procedures, we assessed the design, implementation and effectiveness of relevant controls established by hsh portfoliomanagement AöR to ensure the adequacy of specific valuation allowances on receivables from customers arising from ship financing.

On the basis of a deliberate selection of individual exposures determined from the point of view of materiality and risk, we have checked the appropriateness of the individual value adjustments determined for loans and advances to customers from ship financing. In particular, we assessed the reasonable estimate of the expected cash flows from the operation of the vessels and from the realisation of the financed vessels. The assessment also included the appropriate selection of assumptions.

Our observations

The assumptions used by hsh portfoliomanagement AöR to determine the amount of specific valuation allowances on loans and advances to customers from ship financing were selected appropriately and are in line with the accounting principles to be applied for the measurement of specific valuation allowances.

Other information

The management and/or the advisory board is responsible for the other information. The other information comprises the remaining parts of the annual report:

The other information does not include the annual financial statements, the audited management report and our related audit opinion.

Our opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the audited portions of the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of Management and the Advisory Board for the Annual Financial Statements and the Management Report

Management is responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to institutions, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the institution in compliance with German Legally Required Accounting Principles. In addition, management is responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the institution's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, management is responsible for the preparation of the management report that as a whole provides an appropriate view of the institution's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The advisory board is responsible for overseeing the institution's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the institution's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the institution.

- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the institution's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the institution to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the institution in compliance with German Legally Required Accounting Principles.

- Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the institution's position it provides.

- Perform audit procedures on the prospective information presented by management in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor based on a resolution adopted by the advisory board on 30 September 2020. We were engaged by the advisory board on 20 October 2020. We have been the auditor of the institution without interruption since the financial year 2017.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the advisory board pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Rainer Thiede.

Hamburg, dated 26 March 2021

KPMG AG
Wirtschaftsprüfungsgesellschaft

signed Thiede Wirtschaftsprüfer	signed Schröder Wirtschaftsprüferin

RESPONSIBILITY STATEMENT

We are not required by law to issue a declaration pursuant to sections 264(2) sentence 3 and 289(1) sentence 5 HGB (German Commercial Code). We make the following declaration voluntarily.

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the net assets, financial position and profit or loss of portfoliomanagement, and the management report includes a fair review of the development and performance of the business and the position of the institution, together with a description of the principal opportunities and risks associated with the expected development of portfoliomanagement.

Kiel, dated 24 March 2021

Ulrike Helfer　　　　Dr. Karl-Hermann Witte

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