

## **FITCH RATES HSH FINANZFONDS AND HSH PORTFOLIOMANAGEMENT 'AAA'; OUTLOOKS STABLE**

Fitch Ratings-Frankfurt/Warsaw/London-31 October 2016: Fitch Ratings has assigned HSH Finanzfonds AoER and HSH Portfoliomanagement AoER Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) of 'AAA' and Short Term Foreign and Local Currency IDRs of 'F1+'. The Outlooks of the IDRs are Stable. Fitch has also affirmed their senior unsecured bond ratings at 'AAA'.

HSH Finanzfonds AoER's and HSH Portfoliomanagement AoER's ratings are equalised with those of the two German federated States of Hamburg (Hamburg, AAA/F1+) and Schleswig-Holstein (Schleswig-Holstein, AAA/F1+), reflecting the states' 50% ownership in each of the issuers and their important role they fulfill on behalf of HSH Nordbank AG (BBB-/F3), which is a bank 85% co-owned by the two states.

HSH Finanzfonds AoER and HSH Portfoliomanagement AoER benefit from a deficiency guarantee (Gewährträgerhaftung) and a maintenance obligation (Anstaltslast) from both states. The ratings also take into consideration their tight control by both states and the states' guarantees provided as collateral for all senior unsecured bonds already issued and to be issued by both issuers.

HSH Finanzfonds AoER and HSH Portfoliomanagement AoER are rated as credit-linked entities under Fitch's criteria for 'Rating of Public-Sector Entities Outside the United States'. The Stable Outlook reflects that of the two states as well our expectation that the entities will issue only state-guaranteed debt.

### **KEY RATING DRIVERS**

The rating equalisation reflects the unconditional, irrevocable and unsubordinated guarantee issued by Hamburg and Schleswig-Holstein to secure any debt issued by both entities. This means that the guaranteed debt of the two issuers ranks equally with all the guarantors' other unsubordinated and unsecured liabilities. Both guarantors are equally and severally, but not jointly, liable. The guarantees are issued for an indefinite period and are governed by the laws of the Federal Republic of Germany.

The states' 'AAA' ratings are based on the strong support mechanisms that apply to all members of the German Federation, and the extensive liquidity facilities they benefit from, which ensure timely debt and debt service payment as well as servicing guarantees if they are called. For further details, see Fitch's Rating Approach for the German Laender dated 18 August 2015 at [www.fitchratings.com](http://www.fitchratings.com)

The Federal Republic of Germany (AAA/Stable) represented by the federal government (Bund) and the 16 federated states, which includes Hamburg and Schleswig-Holstein, are all members of the German Federation benefiting from the support mechanism. All Laender are equally entitled to financial support in the event of financial distress irrespective of differences in economic and financial performances.

Hamburg and Schleswig-Holstein founded HSH Finanzfonds AoER on 22 April 2009 pursuant to a state treaty, a public law institution (Anstalt oeffentlichen Rechts; AoER), for the purpose of providing capital support to HSH Nordbank AG on behalf of the two states and to provide guarantees to a specific portfolio of assets of HSH Nordbank AG.

HSH Portfoliomanagement AoER, another public law institution, was founded pursuant to a state treaty 22 December 2015 by the two states for the purpose of the acquisition, profit-oriented realisation and liquidation of risk positions and non-strategic business units of HSH Nordbank AG, its domestic and foreign subsidiaries and their legal successors. This is aimed at stabilising the bank and supporting the stabilisation of the capital markets (pursuant to section 8b, paragraph 1 of the capital market stabilisation fund law (Finanzmarktstabilisierungsfondsgesetz). As a result HSH Portfoliomanagement AoER is authorised to raise loans for the acquisition of such risk positions, and the commencement of operations and ongoing business activities for up to EUR6.2bn.

#### RATING SENSITIVITIES

A downgrade of the sovereign ratings could lead to a downgrade of the Laender and consequently the ratings of HSH Finanzfonds AoER and HSH Portfoliomanagement AoER. An adverse change to an important institutional feature (solidarity principle, equalisation system, liquidity exchange mechanism) would result in a review of the German Laender ratings and in turn the issuers' ratings. Any change to the legal status of the two issuers or the existing guarantee scheme will also result in a review of the ratings.

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Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

Applicable Criteria

International Local and Regional Governments Rating Criteria - Outside the United States (pub. 18 Apr 2016)

<https://www.fitchratings.com/site/re/878660>

Rating of Public-Sector Entities – Outside the United States (pub. 22 Feb 2016)

<https://www.fitchratings.com/site/re/877128>

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