

CREDIT OPINION

23 May 2017

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RATINGS
hsh portfoliomanagement AöR

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

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

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hsh portfoliomanagement AöR

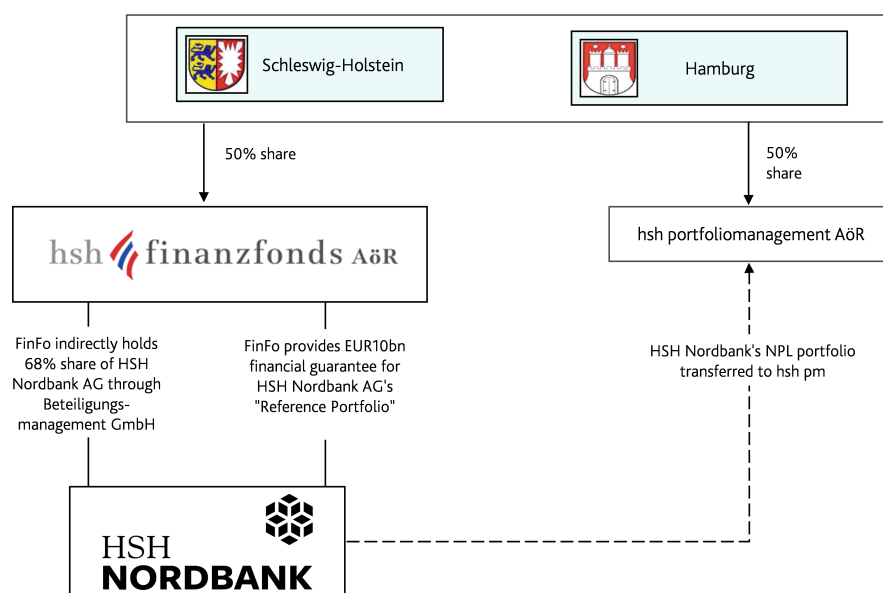
Update Following Recent Rating Action

Summary Rating Rationale

On 22nd May, we affirmed the Aa1 issuer and debt ratings of hsh portfoliomanagement AöR, the P-1 short term rating and the (P) Aa1 provisional rating for the EMTN program. The outlook is stable. The rating affirmation with stable outlook was prompted by Moody's recent rating actions on the German regional sector.

We consider hsh portfoliomanagement AöR, to be a government-related issuer. Together with hsh finanzfonds AöR (FinFo), the entity acts on behalf of its owners to support the restructuring of HSH Nordbank AG (see Exhibit 1).

Exhibit 1

Functions of hsh finanzfonds and hsh portfoliomanagement in providing relief to HSH Nordbank AG


Source: Issuer, Moody's Investors Services

The short-term and long-term issuer and debt ratings reflect the following factors: (1) the full, unconditional and irrevocable guarantee on hsh portfoliomanagement AöR's outstanding debt provided by two German regions (Hamburg, Land of; unrated; and Schleswig-Holstein, Land of; unrated), as laid down in a guarantee deed under German law; (2) hsh portfoliomanagement AöR's public sector legal status, which entitles it to a deficiency

guarantee (Gewährträgerhaftung) and maintenance obligation (Anstaltslast) under German law; (3) hsh portfoliomanagement AöR was established on the basis of public law, including the capital market stabilization fund law (FMStFG §8b). This entails supervision by the federal supervision authority (BaFin), as well as the Laender governments and parliaments.

The ratings also reflect the entity's exposure to further developments during the restructuring and privatization of HSH Nordbank AG (HSH; Baa3, developing, b3). In addition, the entity is exposed to market risks arising from asset price fluctuations and debt refinancing requirements over the longer term.

Our issuer ratings are based on the assumption that the entity will not issue any unguaranteed debt instruments, and that all its outstanding debt will therefore fall under the explicit guarantee scheme provided by the Laender.

In general, the entity funds itself in the international capital markets, facilitated by its legal status and the explicit guarantee of Hamburg and Schleswig-Holstein over its debt. hsh portfoliomanagement AöR also benefits from liquidity support from the Laender governments, which have taken legislative measures allowing them to provide liquidity, if required. Liquidity is therefore currently not a concern for the entity.

Credit Strengths

Credit strengths for hsh portfoliomanagement AöR include:

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

Credit Challenges

Credit challenges for hsh portfoliomanagement AöR include:

- » Exposure to asset prices and refinancing risk

Rating Outlook

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

Factors that Could Lead to an Upgrade

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

Factors that Could Lead to a Downgrade

The rating could be downgraded if one of the guarantors' credit strength weakened, or if the entity issued unguaranteed debt. Any weakening of the guarantee or of hsh portfoliomanagement AöR's legal status could also trigger a downgrade.

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

Profile

hsh portfoliomanagement AöR is a public sector special purpose entity established in 2015 under a regional law by the two German Laender, Land of Hamburg and Land of Schleswig-Holstein, which serve as its owners (50% each; severally on a pro-rata basis).

The setup of the entity is in line with Germany's capital market stabilization fund law (FMStFG) and it is supervised by Germany's Supervisory Authority (BaFin). As a public sector entity, it also benefits from the deficiency guarantee (Gewährträgerhaftung) and maintenance obligation (Anstaltslast) of the owners.

The entity's purpose is to take over and wind-down a portfolio of non-performing loans from HSH Nordbank AG as part of the bank's restructuring process. The portfolio is consisting of shipping loans.

To fund the purchase of the portfolio, the entity is entitled to issue fully, unconditionally and irrevocably guaranteed debt (backed by both Laender on a pro rata basis) in the capital markets.

Recent Developments

At end of June 2016, a portfolio of non-performing loans with a nominal value of about EUR 5 billion (as of 31 December 2015) was transferred to hsh portfoliomanagement AöR at a price of EUR 2.4 billion. This triggered a loss of EUR2.6 billion for HSH Nordbank AG, which was covered by a guarantee from hsh finanzfonds AöR.

On May 2, 2016, the European Commission (EC) issued its formal approval of state aid provided to HSH Nordbank AG (HSH; Baa3, developing, b3). Details of the bank's restructuring and subsequent privatisation process are broadly in line with earlier indications provided in October 2015. The deadline for the bank's privatisation falls in February 2018. The EC's final approval formalises its 19 October 2015 statement that approved an increase to EUR10 billion of a second-loss asset guaranty from HSH's state owners (via hsh finanzfonds AöR) that HSH had prematurely reduced to EUR7 billion in September 2011. Consequently, the guarantee premium was reduced to 2.2% from 4%. The approval allows the bank to go ahead with important restructuring measures, in particular the creation of a new holding company. Other measures include the creation of hsh portfoliomanagement AöR, which will take over a portfolio of up to EUR6.2 billion of non-performing loans out of a total capped at EUR 8.2 billion. The remainder will be sold on the market.

Detailed Rating Considerations

We consider the entity to be a government-related issuer (GRI). From a credit risk profile perspective, it is not meaningful to distinguish between the entity and the two guarantors. As such, the entity's ratings are derived from the credit strength of the support providers, as described in Moody's rating methodology for government-related issuers (GRIs) entitled "Government-Related Issuers: Methodology Update" published in October 2014.

DIRECT CREDIT LINKAGE WITH TWO GERMAN REGIONS DUE TO A FULL, UNCONDITIONAL AND IRREVOCABLE GUARANTEE ON ALL OUTSTANDING DEBT

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

Hamburg and Schleswig-Holstein are located in the north of Germany. Hamburg has an exceptionally strong economy and strong demographics, while Schleswig-Holstein's GDP per capita remains somewhat below the German average. Schleswig-Holstein benefits from the German tax revenue equalisation system. The Land reported a sound financial surplus of 3% of total revenues, compared with Hamburg's 2%, in 2016 (provisional data). Hamburg, despite its status as a city-state, had a direct debt level of 173% of operating revenues in 2016, slightly above the sector average. Schleswig-Holstein's direct debt level was just under 240% of operating revenues. If we included indirect debt, predominantly guarantees for hsh finanzfonds AöR but also non self-supporting debt of government owned entities, both regions would have net direct and indirect debt ratios well above the sector average.

PUBLIC SECTOR LEGAL STATUS, INCLUDING DEFICIENCY GUARANTEE (GEWÄHRTRÄGERHAFTUNG) AND MAINTENANCE OBLIGATION (ANSTALTSLAST) UNDER GERMAN PUBLIC LAW

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

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

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

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

SYSTEMIC SUPPORT UNDER THE GERMAN LEGAL FRAMEWORK REGULATING WIND-DOWN ENTITIES, AND STRONG SUPERVISION BY ITS OWNERS

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

EXPOSURE TO ASSET PRICES AND REFINANCING RISK

The final cost, which would crystallize on the Laender balance sheet and increase their debt level, depends on the successful wind-down of hsh portfoliomanagement AöR's portfolio. Over the wind-down period, the entities will need to refinance themselves in the capital markets, which exposes them to refinancing risk.

Ratings

Exhibit 2

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

Source: Moody's Investors Service

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