

**RESPARCS FUNDING II LIMITED PARTNERSHIP**  
**INTERIM REPORT AND UNAUDITED FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 30TH JUNE 2016**

## **RESPARCS FUNDING II LIMITED PARTNERSHIP**

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## **RESPARCS FUNDING II LIMITED PARTNERSHIP**

### **REPORT OF THE GENERAL PARTNER**

The General Partner, European Capital Investment Opportunities Limited, presents its interim report and the unaudited financial statements of RESPARCS Funding II Limited Partnership (the "Partnership") for the period ended 30th June 2016.

#### **PARTNERSHIP**

The Partnership was established on 17th April 2003 and is registered as a limited partnership in Jersey under the Limited Partnerships (Jersey) Law 1994 for an unlimited duration. The Partnership commenced activities on 26th May 2003, with the issue of €500,000,000 nominal Re-Engineered Silent Participation Assimilated Regulatory Capital (RESPARC) Securities (the "RESPARC Securities", or "Capital Securities" or "Securities").

#### **ACTIVITIES**

The principal activity of the Partnership is to participate in financing activities arranged for HSH Nordbank Aktiengesellschaft ("HSH Nordbank" or the "Bank"). The Partnership has issued €500,000,000 nominal 7.5% RESPARC Securities, the proceeds from which have been used to acquire a silent capital interest (the "Silent Contribution") in the commercial enterprise of HSH Nordbank in the form of a "Stille Gesellschaft" under German law in the amount of €500,000,000. The market for the Silent Contribution and hence the RESPARC Securities issued by the Partnership, is limited to highly sophisticated investors who understand the risks and rewards associated with these financial instruments. The RESPARC Securities are listed on the Frankfurt Stock Exchange and the Official Segment of the stock market of Euronext Amsterdam N.V.

For further details on activity of the Partnership and events during the period please refer to note 2 and note 7.

#### **GOING CONCERN**

Due to the limited recourse nature of the structure and available liquidity facility, the General Partner is of the opinion that the Partnership will be able to meet its obligations as they fall due. Therefore the financial statements have been prepared on a going concern basis, notwithstanding the net liability position of the Partnership at the period end. Detailed information on the General Partner's assessment of going concern is disclosed in note 1.

#### **RESULTS FOR THE PERIOD**

The profit for the period amounted to €128,762 (2015: profit of €102,679).

#### **DIRECTORS**

The Directors of the General Partner who held office during the period and subsequently were:

S.J. Hopkins  
J.D. Wiseman  
J.N. Pendergast

#### **REGISTERED OFFICE**

The registered office is 13 Castle Street, St Helier, Jersey, Channel Islands, JE4 5UT.

## **RESPARCS FUNDING II LIMITED PARTNERSHIP**

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### **REPORT OF THE GENERAL PARTNER - (CONTINUED)**

#### **STATEMENT OF GENERAL PARTNER'S RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS**

The General Partner is responsible for preparing the Report of the General Partner and the financial statements in accordance with applicable law, the Limited Partnership Agreement and International Financial Reporting Standards.

The General Partner is responsible for the preparation of financial statements for each financial period which give a true and fair view of the surplus or deficit of the Partnership for the period and of the state of affairs at the end of the period. In preparing the financial statements the General Partner should:

- \* select suitable accounting policies and then apply them consistently;
- \* make judgements and estimates that are reasonable and prudent;
- \* state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- \* prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Partnership will continue in business.

The General Partner is responsible for keeping accounting records which are sufficient to show and explain the Partnership's transactions and to disclose with reasonable accuracy, at any time, the financial position of the Partnership. The General Partner is also responsible for safeguarding the assets of the Partnership and hence for taking reasonable steps for the prevention and detection of fraud, errors and other irregularities.

The General Partner confirms that it has complied with the above requirements throughout the period and subsequently.

#### **STATEMENT OF PERSONS RESPONSIBLE WITHIN THE ISSUER**

With regard to Regulation 2004/109/EC of the European Union (the "EU Transparency Directive"), the Directors of the General Partner, whose names appear on page 2, confirm to the best of their knowledge that the unaudited financial statements for the period ended 30th June 2016 give a true and fair view of the assets, liabilities, financial position and profit or loss of the Partnership as required by the applicable accounting standards. The Report of the General Partner gives a fair review of the development of the Partnership's business, financial position and the important events that have occurred during the period and their impact on the financial statements. The principal risks and uncertainties faced by the Partnership are disclosed in note 12 of these financial statements.



Signed on behalf of

**European Capital Investment Opportunities Limited**

General Partner

13 Castle Street

St. Helier

Jersey, Channel Islands

JE4 5UT

Date: 14/09/2016

## RESPARCS FUNDING II LIMITED PARTNERSHIP

### STATEMENT OF FINANCIAL POSITION

AS AT 30TH JUNE 2016

	<u>Notes</u>	<u>30th Jun 16</u>	<u>31st Dec 15</u>
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Available-for-sale financial assets	2	99,925,000	150,335,000
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	3	171,585	171,774
		171,585	171,774
<b>TOTAL ASSETS</b>	€	100,096,585	€ 150,506,774
<b>EQUITY AND LIABILITIES</b>			
<b>CAPITAL AND RESERVES</b>			
Capital account	5	1,000	1,000
Capital contribution	5	1,501,807	1,501,807
Retained deficit		( 4,475,240)	( 4,604,002)
Revaluation reserve		( 305,590,531)	( 240,545,792)
<b>TOTAL PARTNERS' DEFICIT</b>		( 308,562,964)	( 243,646,987)
<b>NON-CURRENT LIABILITIES</b>			
Capital securities issued	7	407,225,562	392,802,121
<b>CURRENT LIABILITIES</b>			
Loans payable	6	1,351,375	1,269,839
Trade and other payables	4	82,612	81,801
		1,433,987	1,351,640
<b>TOTAL LIABILITIES</b>		408,659,549	394,153,761
<b>TOTAL EQUITY AND LIABILITIES</b>	€	100,096,585	€ 150,506,774

The financial statements on pages 4 to 27 were approved and authorised for issue by the Board of the General Partner on the 14<sup>th</sup> day of September 2016 and were signed on its behalf by:

Director:



(The notes on pages 8 to 27 form part of these financial statements)

## RESPARCS FUNDING II LIMITED PARTNERSHIP

### STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD 1ST JANUARY 2016 TO 30TH JUNE 2016

	<u>Notes</u>	<u>1st Jan 16 to 30th Jun 16</u>	<u>1st Jan 15 to 30th Jun 15</u>
<b>FINANCE INCOME</b>			
Finance income:			
- effective income adjustment on Silent Contribution	2	14,634,739	15,641,172
Unrealised gain on exchange		5,339	-
<b>TOTAL INCOME</b>		<u>14,640,078</u>	<u>15,641,172</u>
<b>EXPENDITURE</b>			
Transaction fee		-	343
Support undertaking fees		30,333	60,333
Legal and professional fees		1,873	4,505
Administration fees		20,726	25,582
Management fees		2,256	2,380
Partnership fees		-	192
Audit fees		20,340	20,103
ISE fees		-	256
Bank charges		191	222
Expenses paid on behalf of General Partner and Trust		11,969	18,427
German fiscal fees payable		-	125
Unrealised loss on exchange		-	4,648
		<u>87,688</u>	<u>137,116</u>
<b>FINANCE EXPENDITURE</b>			
Finance costs:			
- effective income adjustment on Capital Securities	7	14,423,441	15,394,274
Loan interest		187	7,103
<b>TOTAL EXPENDITURE</b>		<u>14,511,316</u>	<u>15,538,493</u>
<b>PROFIT FOR THE PERIOD</b>		<u>128,762</u>	<u>102,679</u>
<b>OTHER COMPREHENSIVE LOSS</b>			
<i>Items that may be reclassified subsequently from other comprehensive income to profit or loss</i>			
Change in fair value of available-for-sale financial assets	2	( 65,044,739)	( 50,741,172)
<b>TOTAL COMPREHENSIVE LOSS FOR THE PERIOD</b>		<u>€ ( 64,915,977)</u>	<u>€ ( 50,638,493)</u>

#### Other comprehensive income

There were no items that may not be reclassified subsequently from other comprehensive income to profit or loss.

*(The notes on pages 8 to 27 form part of these financial statements)*

## **RESPARCS FUNDING II LIMITED PARTNERSHIP**

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### **STATEMENT OF CHANGES IN PARTNERS' EQUITY**

**FOR THE PERIOD 1ST JANUARY 2016 TO 30TH JUNE 2016**

	<u>Capital account</u>	<u>Capital contribution</u>	<u>Retained deficit</u>	<u>Revaluation reserve</u>	<u>Total</u>
	€	€	€	€	€
Balance at 1st January 2016	1,000	1,501,807	( 4,604,002)	(240,545,792)	(243,646,987)
Comprehensive income:					
- Profit for the period	-	-	128,762	-	128,762
- Other comprehensive loss for the period	-	-	-	( 65,044,739)	( 65,044,739)
Balance at 30th June 2016	<u>1,000</u>	<u>1,501,807</u>	<u>( 4,475,240)</u>	<u>(305,590,531)</u>	<u>(308,562,964)</u>
Balance at 1st January 2015	1,000	1,501,807	( 3,920,325)	(250,012,469)	(252,429,987)
Comprehensive income:					
- Profit for the period	-	-	102,679	-	102,679
- Other comprehensive loss for the period	-	-	-	( 50,741,172)	( 50,741,172)
Balance at 30th June 2015	<u>1,000</u>	<u>1,501,807</u>	<u>( 3,817,646)</u>	<u>(300,753,641)</u>	<u>(303,068,480)</u>

*(The notes on pages 8 to 27 form part of these financial statements)*

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## **RESPARCS FUNDING II LIMITED PARTNERSHIP**

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### **STATEMENT OF CASH FLOWS**

**FOR THE PERIOD 1ST JANUARY 2016 TO 30TH JUNE 2016**

	<u>Notes</u>	<u>30th Jun 16</u>	<u>30th Jun 15</u>
<b>Cash flows from operating activities</b>			
Profit for the period		128,762	102,679
Increase in trade and other payables		811	11,622
Decrease in trade and other receivables		-	2,899
Effective income adjustment on Silent Contribution	2	( 14,634,739)	( 15,641,172)
Effective income adjustment on Capital Securities	7	14,423,441	15,394,274
<b>Net cash outflow from operating activities</b>		<u>( 81,725)</u>	<u>( 129,698)</u>
<b>Cash flows from financing activities</b>			
Amount drawn under liquidity facility		81,536	129,346
<b>Net cash inflow from financing activities</b>		<u>81,536</u>	<u>129,346</u>
<b>Net decrease in cash and cash equivalents</b>		<u>( 189)</u>	<u>( 352)</u>
<b>Cash and cash equivalents at the beginning of the period</b>		<u>171,774</u>	<u>172,219</u>
<b>Cash and cash equivalents at the end of the period</b>	3	<u>€ 171,585</u>	<u>€ 171,867</u>

*(The notes on pages 8 to 27 form part of these financial statements)*

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## **RESPARCS FUNDING II LIMITED PARTNERSHIP**

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### **NOTES TO THE FINANCIAL STATEMENTS**

#### **FOR THE PERIOD 1ST JANUARY 2016 TO 30TH JUNE 2016**

##### **1. ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

###### **Basis of accounting**

These financial statements, which give a true and fair view, have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee. The more significant accounting policies used are set out below.

These financial statements have been prepared on the historical cost basis, except for available-for-sale financial assets which are stated at fair value.

###### **Going concern**

The Partnership is currently in a net liability position. This is caused primarily by the accounting policy mismatch between the Silent Contribution (at fair value) and the RESPARC Securities (at amortised cost). The General Partner notes that, with the exception of a small interest margin, the terms and conditions of the RESPARC Securities mirror those of the Silent Contribution and the Partnership's cash inflows and outflows in respect of these instruments are matched. The General Partner further notes the existence of the liquidity facility (see note 6), the limited recourse nature of the RESPARC Securities, and the liabilities of the Partnership are supported by HSH Nordbank Securities S.A. ("HSH Nordbank Luxembourg") under a Support Undertaking dated 26th May 2003. HSH Nordbank Luxembourg has undertaken to ensure that the Partnership will at all times be in a position to meet its obligations. The Partnership is dependent upon the ongoing support of HSH Nordbank Luxembourg, without which there would exist a material uncertainty concerning the Partnership's ability to continue as a going concern. The uncertainties of HSH Nordbank Luxembourg being able to meet these obligations are disclosed in note 16.

The assumption of the Bank as a going concern for accounting and measurement purposes is based in particular on the following conditions:

(i) the agreements required for the implementation of the formal decision taken by the EU Commission in the EU state aid proceedings on the replenishment of the second loss guarantee are entered into comprehensively and on a timely basis and that the formal decision will be implemented by HSH Nordbank AG ("HSH Nordbank") and its shareholders in full and on a timely basis;

(ii) the operating company, HSH Nordbank, is sold at a positive sales price in an open, nondiscriminatory, competitive and transparent process not involving state aid by 28th February 2018 and the EU Commission grants its approval for the acquisition following a viability assessment of the new corporate structure. Should the divestment procedure not lead to offers not requiring state aid with a positive price being offered before the expiry of the deadline or should the EU Commission in the course of its viability assessment come to the conclusion that the integration of the operating company into the new corporate structure will not lead to a viable business model that is profitable in the long term, the operating company will cease new business and manage its assets as far as legally permissible with the aim of a structured winding down of its business. In the event of significant unexpected outflows of funds (e.g. in the scenario described above), measures must be taken to strengthen the liquidity position.

## **RESPARCS FUNDING II LIMITED PARTNERSHIP**

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### **NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)**

#### **FOR THE PERIOD 1ST JANUARY 2016 TO 30TH JUNE 2016**

##### **1. ACCOUNTING POLICIES - (CONTINUED)**

###### **Going concern - (continued)**

It is further required that acceptance by market participants and other relevant stakeholders necessary for the successful implementation of HSH Nordbank AG's business model and the requirements under the formal decision of the EU Commission is maintained or gained and that the expected recovery of the shipping markets materialises.

Consequently, the General Partner has a reasonable expectation that the Partnership has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the General Partner continues to adopt the going concern basis in preparing these financial statements.

###### **New Accounting Standards, amendments to existing Accounting Standards and/or interpretations of existing Accounting Standards (separately or together, "New Accounting Requirements") adopted during the current period**

The General Partner has assessed the impact, or potential impact, of all New Accounting Requirements. In the opinion of the General Partner, there are no mandatory New Accounting Requirements applicable in the current period that had any material effect on the reported performance, financial position, or disclosures of the Partnership. Consequently, no mandatory New Accounting Requirements are listed. The Partnership has not early adopted any New Accounting Requirements that are not mandatory.

###### **Non-mandatory New Accounting Requirements not yet adopted**

The following applicable New Accounting Requirements have been issued. However, these New Accounting Requirements are not yet mandatory and have not yet been adopted by the Partnership. All other non-mandatory New Accounting Requirements are either not yet permitted to be adopted, or would have no material effect on the reported performance, financial position, or disclosures of the Partnership and consequently have neither been adopted, nor listed.

###### **IFRS 9, "Financial Instruments" (Replacement of IAS 39 — "Financial Instruments: Recognition and Measurement") – effective date 1st January 2018**

IFRS 9 addresses the recognition, classification and measurement of financial assets and financial liabilities and replaces most of the guidance in IAS 39.

IFRS 9 requires financial assets to be classified into the following measurement categories: (i) those measured at fair value through profit or loss; (ii) those measured at fair value through other comprehensive income; and, (iii) those measured at amortised cost. The determination is made at initial recognition. Unless the option to designate a financial asset as measured at fair value through profit or loss is applicable, the classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. IFRS 9 also replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model for the measurement of impairment loss. The new model applies to financial assets that are not measured at fair value through profit or loss.

For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

## **RESPARCS FUNDING II LIMITED PARTNERSHIP**

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### **NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)**

#### **FOR THE PERIOD 1ST JANUARY 2016 TO 30TH JUNE 2016**

##### **1. ACCOUNTING POLICIES - (CONTINUED)**

###### **IFRS 9, "Financial Instruments" (Replacement of IAS 39 — "Financial Instruments: Recognition and Measurement") – effective date 1st January 2018 - (continued)**

The mandatory effective date for application of IFRS 9 is for accounting periods beginning on or after 1st January 2018, but early adoption is permitted at any time. Upon adoption of IFRS 9, the classification of the Silent Contribution will likely change from available-for-sale financial assets to financial assets measured at fair value through profit or loss and it is likely that the classification of the Capital Securities will change from financial liabilities measured at amortised cost to financial liabilities measured at fair value through profit or loss. It is likely that the Capital Securities will be designated as financial liabilities measured at fair value through profit or loss in order to eliminate or significantly reduce the measurement inconsistency that would otherwise arise from measuring the Silent Contribution at fair value through profit or loss whilst measuring the Capital Securities at amortised cost. The Partnership intends to adopt IFRS 9 no earlier than the mandatory effective date.

###### **Use of estimation, judgements and assumptions**

The preparation of financial statements in accordance with IFRS requires the General Partner to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenditure during the period. Actual results could differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The significant areas of uncertainty and critical judgements are as follows: (i) fair value estimation: further details in relation to the key assumptions made in determining fair value are disclosed in the "Fair value estimation" accounting policy and note 12; (ii) recognition and measurement of impairment: further details are disclosed in the "Impairment" accounting policy; and, (iii) revision of expected cash flows: further details are disclosed in the "Effective income adjustments" accounting policy.

###### **Available-for-sale ("AFS") financial assets**

The Partnership's investment in the Participation Agreement has been classified as an AFS debt financial asset. AFS financial assets are measured initially at fair value plus transaction costs that are directly attributable to the acquisition of the asset. Subsequent to initial recognition they are measured at fair value and changes therein are recognised in other comprehensive income except for impairment losses, changes to carrying values resulting from the revision of estimated future receipts (see "Effective income adjustments" below) and foreign exchange gains and losses which are recognised directly as profit or loss in the statement of comprehensive income. When an AFS financial asset is derecognised, the cumulative gain or loss in equity is transferred to the profit or loss in the statement of comprehensive income.

AFS financial assets are derecognised when the rights to receive cash flows from the investments have expired or the Partnership has transferred substantially all risks and rewards of ownership. Any cumulative revaluation reserve attributable to derecognised AFS financial assets are transferred from other comprehensive income to the profit or loss in the statement of comprehensive income.

## **RESPARCS FUNDING II LIMITED PARTNERSHIP**

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### **NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)**

#### **FOR THE PERIOD 1ST JANUARY 2016 TO 30TH JUNE 2016**

##### **1. ACCOUNTING POLICIES - (CONTINUED)**

###### **Impairment**

In accordance with IAS 39, a financial asset is assessed as at each reporting date to determine whether there is any objective evidence that it is impaired. An impairment is recognised if, and only if, there is objective evidence of impairment as a result of one or more 'loss events' that has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Such evidence that a financial asset is impaired includes observable data that may come to the attention of the General Partner about any of the following examples of loss events: failure to receive profit participation on the Silent Contribution; reduction or write down of principal, notional or redemption amounts; notice of default or bankruptcy; other indications that HSH Nordbank is unlikely to meet its obligations under the Silent Contribution as they fall due, such as a credit rating downgrade; or a significant and prolonged decrease in the fair value of the Silent Contribution.

When considering whether or not objective evidence of impairment of the Silent Contribution exists, the General Partner has considered and noted the following; i) the Partnership is not currently receiving profit participation on the Silent Contribution. However, whilst the failure to receive profit participation on the Silent Contribution during the financial period or subsequently may be an indicator of impairment, it is unlikely that this alone would give rise to an impairment adjustment for a financial instrument such as the Silent Contribution. The Silent Contribution represents a subordinate interest in HSH Nordbank, whose right to receive profit participations is contingent upon HSH Nordbank having sufficient distributable profits and in the absence of such, the Partnership is not entitled to receive any interest. Thus, the General Partner does not consider a failure to receive profit participation as a loss event when considered in isolation; ii) the Silent Contribution is a perpetual instrument and the holder has no right to demand redemption, with redemption being at the option of HSH Nordbank; there is presently no indication that the full principal amount of the Silent Contribution will not be repaid eventually; and iii) upon profits arising at HSH Nordbank, the reductions in the carrying value of the Silent Contribution would be written back and consequently are not considered to be permanent. Accordingly, no impairment has been recognised on the Silent Contribution.

On 6th February 2013, an announcement was made by HSH Nordbank relating to financial planning which is expected to result in net losses for the business years 2013 and 2014. The financial results from the years 2015 to 2017, if any, will then be used to write up the hybrid instruments to par value. On 8th June 2016, an announcement was made by HSH Nordbank stating that HSH Nordbank expects that coupon payments on Silent Participations and Profit Participation capital will only take place in 2020 for the fiscal year 2019, at the earliest. Therefore in the General Partner's opinion, no loss events have occurred during the period ended 30th June 2016 or subsequently and the reductions in the nominal amount of the Silent Participation are not considered to be permanent. Also the non-payment of profit participation is not considered to be an impairment trigger as there is no obligation to pay such profit participation in the event that HSH Nordbank has insufficient distributable profits. Accordingly, no impairment is required to be recognised on the Partnership's investment in the Participation Agreement.

However, although no impairment has been recognised, an adjustment to the carrying value of the financial assets and liabilities has been made in the statement of comprehensive income in accordance with IAS 39.AG8 as further detailed in the "Effective income adjustments" accounting policy.

## **RESPARCS FUNDING II LIMITED PARTNERSHIP**

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### **NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)**

#### **FOR THE PERIOD 1ST JANUARY 2016 TO 30TH JUNE 2016**

##### **1. ACCOUNTING POLICIES - (CONTINUED)**

###### **Capital Securities**

Capital Securities ("Securities") are recognised initially at issue proceeds less attributable transaction costs. Subsequent to initial recognition, the Securities are stated at amortised cost using the effective interest method in accordance with IAS 39. The scheduled redemption amount of the Securities at the scheduled maturity dates will be the lesser of (i) the nominal amount invested; and (ii) the amount received by the Partnership in respect of the redemption of the Silent Contribution held by the Partnership.

The Securities are derecognised when the obligations under the Securities are discharged, cancelled or expired.

The General Partner has considered the characteristics of the Securities and consider that the most appropriate classification of these securities is as other financial liabilities.

###### **Effective income adjustments**

IAS 39.AG8 prescribes that the carrying amount of financial assets or liabilities shall be adjusted if an entity revises its estimates of payments or receipts. The recalculated carrying amount results from computing the present value of estimated future cash flows at the financial instrument's original effective interest rate. The adjustments are recognised in the statement of comprehensive income as a component of finance income or finance costs as appropriate. Due to the forecast suspension, until 2020 (2015: 2020), of Profit Participations from the Partnership's AFS financial assets (note 2) and interest payments on the Partnership's capital securities issue (note 7), the carrying amounts of these financial instruments have been adjusted accordingly. In subsequent years, if the carrying amounts of the financial instruments are adjusted again, the change will be reflected in the statement of financial position with the movement included in the statement of comprehensive income.

Applying IAS 39.AG8 involves substantial assumptions, which are accompanied by uncertainties. The following assumptions have been used in the IAS 39.AG8 calculations; (i) payments of annual profit participation are assumed to recommence from 30th June 2020; (ii) repayment of principal is assumed to take place on 31st December 2033; and (iii) the cash flows have been discounted at the original effective interest rates for each instrument, being 7.65% for the Silent Contribution and 7.50% for the RESPARC Securities.

###### **Fair value estimation**

IFRS 13 "Fair Value Measurement" ("IFRS 13") defines a fair value hierarchy that prioritises the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under IFRS 13 are as follows:

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities at the valuation date.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices), including inputs from markets that are not considered to be active.

Level 3 – Inputs that are not based upon observable market data.

## **RESPARCS FUNDING II LIMITED PARTNERSHIP**

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### **NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)**

#### **FOR THE PERIOD 1ST JANUARY 2016 TO 30TH JUNE 2016**

##### **1. ACCOUNTING POLICIES - (CONTINUED)**

###### **Fair value estimation - (continued)**

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "active" and/or "observable" requires significant judgment by the Partnership. The Partnership considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, provided by multiple, independent sources that are actively involved in the relevant market. The categorisation of a financial instrument within the hierarchy is based upon the pricing transparency of the financial instrument and does not necessarily correspond to the Partnership's perceived risk inherent in such financial instrument.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e., the fair value of the consideration given or received). The fair value of financial instruments traded in active markets (such as the quoted investments) is based on quoted market prices at the end of the reporting period.

The estimated fair values of the Silent Participation and the Securities are disclosed in note 12.

Periodic movements in the estimated fair value of the Securities are not recognised within these financial statements owing to the measurement basis being amortised cost.

The Directors of the General Partner apply transfers between levels in the fair value hierarchy as at the end of each reporting period.

###### **Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

###### **Loans payable**

Loans payable are initially recognised at fair value plus transaction costs, if any, and are subsequently measured at amortised cost using the effective interest rate.

###### **Foreign currencies**

###### *a) Functional currency and presentation currency*

Items included in the financial statements of the Partnership are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Euro, which is the Partnership's functional and presentation currency.

###### *b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

###### **Employees**

The Partnership had no employees during the period ended 30th June 2016 (2015: none).

## **RESPARCS FUNDING II LIMITED PARTNERSHIP**

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### **NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)**

#### **FOR THE PERIOD 1ST JANUARY 2016 TO 30TH JUNE 2016**

##### **1. ACCOUNTING POLICIES - (CONTINUED)**

###### **Profit participation income and deposit interest income**

Profit participation income is accounted for on an effective interest rate basis. Deposit interest income is accounted for on an accruals basis.

###### **Interest expense**

Interest expense on Securities and loans payable are accounted for on an effective interest rate basis.

###### **German withholding tax**

Profit participation income is received net of German withholding tax ("WHT"). The Partnership is refunded the amount of WHT deducted as part of the Loan Agreement and therefore investment income is shown gross.

###### **Distributions**

Distributions to partners are recorded on the date they are declared by the General Partner.

###### **Segmental reporting**

An operating segment is a component of the Partnership that engages in business activities from which it may earn revenues and incur expenses. The General Partner, as the chief operating decision-maker, performs regular reviews of the operating results of the Partnership and makes decisions using financial information at the entity level. Accordingly, the General Partner believes that the Partnership has only one operating segment (see note 14).

The General Partner is responsible for ensuring that the Partnership carries out business activities in line with the transaction documents. The General Partner may delegate some or all of the day to day management of the business including the decisions to purchase and sell securities to other parties both internal and external to the Partnership. The decisions of such parties are reviewed on a regular basis to ensure compliance with the policies and legal responsibilities of the General Partner. Therefore the General Partner retains full responsibility as to the major allocation decisions of the Partnership.

##### **2. AVAILABLE-FOR-SALE FINANCIAL ASSETS**

**30th Jun 16**

**31st Dec 15**

###### **Silent capital interest in the commercial enterprise of HSH Nordbank**

Carrying amount based on effective interest rate AG8 calculation:

Opening balance

390,880,792

420,112,469

Effective income adjustment

14,634,739

( 29,231,677)

Closing balance

405,515,531

390,880,792

## RESPARCS FUNDING II LIMITED PARTNERSHIP

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### NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

#### FOR THE PERIOD 1ST JANUARY 2016 TO 30TH JUNE 2016

#### 2. AVAILABLE-FOR-SALE FINANCIAL ASSETS - (CONTINUED)

Fair value adjustment:	<b>2016</b>	<b>2015</b>
Opening balance	( 240,545,792)	( 250,012,469)
Movement during the period	( 65,044,739)	9,466,677
Closing balance	( 305,590,531)	( 240,545,792)
Fair value	€ 99,925,000	€ 150,335,000
Notional amount outstanding at the period end	€ 500,000,000	€ 500,000,000

On 28th May 2003, the Partnership acquired a silent capital interest (the "Participation" or the "Silent Contribution") in the commercial enterprise (Handelsgewerbe) of Landesbank Schleswig-Holstein Girozentrale ("LB Kiel") with retroactive effect as of 1st January 2003. The Participation is in the form of a Stille Gesellschaft under German law pursuant to an agreement dated 23rd May 2003 (the "Participation Agreement") providing for an asset contribution by the Partnership to LB Kiel in the amount of €500,000,000. LB Kiel has now merged with Hamburgische Landesbank Girozentrale ("Hamburg LB" or "HLB") into HSH Nordbank.

Under the Participation Agreement the Partnership is entitled to receive Profit Participations on the Silent Contribution. Profit Participations accrue for Profit Periods running from 1st January to 31st December with the exception of the first Profit Period, which ran from 28th May 2003 to 31st December 2003 and the last Profit Period, which runs from 1st January of the year in which the Termination Date occurs and ends on the Termination Date.

Profit Participations are receivable annually in arrears on the later of (i) 30th June in the year following the end of the relevant Profit Period, and (ii) the business day following the date on which HSH Nordbank's annual financial statements have been adopted for the fiscal year of HSH Nordbank to which the relevant Profit Period relates. No Profit Participation shall accrue for the Profit Period in which the Termination Date occurs.

Profit Participations are received net of German withholding tax and any solidarity surcharge, if applicable (together "WHT"). European Equity Participation Management GmbH (the "Issuer Limited Partner") reclaims such WHT, to the extent that such amounts exceed the amount of German tax payable by the Issuer Limited Partner, and then pays the amounts reclaimed onto the Partnership under the terms of the Contribution Agreement. Under the Loan Agreement, HSH Nordbank is required to advance to the Partnership an amount equal to the WHT deducted. On this basis, the Partnership does not effectively suffer WHT on its profit participation, and accordingly the investment income is shown gross and the net amount of WHT suffered by the Partnership is shown in the statement of comprehensive income.

At the outset of the transaction it was agreed between the Partnership and HSH Nordbank that the Profit Participations for each year would consist of two elements: 50% relating to the first half of the relevant Profit Period and 50% relating to the second half of the relevant Profit Period, with the second element being payable only if the Partnership still remains a Silent Partner until the payment date.

Following the first Profit Period, subject to HSH Nordbank having sufficient distributable profits, Profit Participations accrue on the book value of the Silent Contribution at a rate of 7.65% p.a.



## **RESPARCS FUNDING II LIMITED PARTNERSHIP**

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### **NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)**

#### **FOR THE PERIOD 1ST JANUARY 2016 TO 30TH JUNE 2016**

#### **2. AVAILABLE-FOR-SALE FINANCIAL ASSETS - (CONTINUED)**

The Participation is a perpetual instrument. The Silent Contribution will only be repaid to the Silent Partner after termination of the Participation Agreement by HSH Nordbank. HSH Nordbank may only terminate the Participation Agreement if either (i) tax or regulatory changes occur but in no case before 31st December 2008, or (ii) on or after 31st December 2011, with 2 years' prior notice to the Silent Partner (with termination becoming effective on or after 31st December 2013) so long as HSH Nordbank's solvency ratio exceeds 9% on a sustainable, unconsolidated or consolidated basis.

Pursuant to the EU Commission's requirements, HSH Nordbank is not permitted to make any payouts on profit participation capital and silent partnerships due to the Bank's net loss or balance sheet loss.

On 8th June 2016, a Press Release was issued by HSH Nordbank stating that a decision had been made by the EU commission on 2nd May 2016 to make a single payment of EUR 260 million to a holding company to be set up. The medium term financial plan includes the establishment of a special item for general banking risks according to section 340g German Commercial code (HGB) in order to strengthen the bank's capital resources. Against this background HSH Nordbank now expects that coupon payments on silent participations and profit-participation capital will only take place in 2020 (31st December 2015: 2020) for the fiscal year 2019, at the earliest.

Details regarding how the fair value of the Silent Contribution has been estimated are disclosed in note 12.

#### **3. CASH AND CASH EQUIVALENTS**

	<u>30th Jun 16</u>	<u>31st Dec 15</u>
HSH Nordbank - EUR account	€ 171,585	€ 171,774

#### **4. TRADE AND OTHER PAYABLES**

	<u>30th Jun 16</u>	<u>31st Dec 15</u>
Administration fees payable	11,426	13,928
Loan interest payable	40,340	40,153
Audit fee payable	29,546	26,381
Sundry payable	1,000	1,000
Transaction fee payable	300	339
	€ 82,612	€ 81,801

## **RESPARCS FUNDING II LIMITED PARTNERSHIP**

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### **NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)**

#### **FOR THE PERIOD 1ST JANUARY 2016 TO 30TH JUNE 2016**

#### **4. TRADE AND OTHER PAYABLES - (CONTINUED)**

As explained in note 2, there has been no Profit Participation income receivable during the periods ended 30th June 2016 and 31st December 2015. Since the coupon payments on the RESPARC Securities are contingent on the receipt of Profit Participation income, no accrual has been made as at 30th June 2016 and 31st December 2015 in respect of interest payable. Please refer to note 16 for further details.

#### **5. PARTNERSHIP INTERESTS**

The following information provides a summary of the main rights of the General Partner and the Limited Partner. It does not attempt to provide details of all circumstances, terms and conditions, and reference should also be made to the detailed provisions contained within the Limited Partnership Agreement dated 17th April 2003 and the Limited Partnerships (Jersey) Law 1994.

##### **General Partner**

The General Partner is European Capital Investment Opportunities Limited, incorporated in Jersey, Channel Islands. The General Partner's Partnership share is 0.01%.

##### **Limited Partner**

The Limited Partner is European Equity Participation Management GmbH, incorporated in Germany. The Limited Partner's Partnership share is 99.99%.

##### **Partnership Profits and Losses**

The profits and losses of the Partnership shall belong to or be borne by the Partners in their respective partnership share subject to the fact that the total liability of the Limited Partner shall not exceed the Capital Contribution of the Limited Partner (i.e. €1,000).

##### **Additional Capital Contribution**

During 2010 the Partnership received a capital contribution of €1,330,249 from the Limited Partner. In 2013 the Partnership also received an additional capital contribution of €171,558 from the Limited Partner which became due following an additional payment of a tax refund to the Limited Partner.

#### **6. LOANS PAYABLE**

	<u>30th Jun 16</u>	<u>31st Dec 15</u>
Liquidity facility	€ 1,351,375	€ 1,269,839

The Partnership was granted, by HSH Nordbank AG, a Liquidity Facility up to a maximum amount of €22,000,000. This was reduced to a maximum amount of €2,000,000 in December 2008. The Liquidity Facility is available until the termination date of the Participation Agreement, on which date any amounts advanced under the Liquidity Facility will become repayable. Interest is payable quarterly in arrears at the 12 month Euribor rate plus a margin of 0.3%.

## RESPARCS FUNDING II LIMITED PARTNERSHIP

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### NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

#### FOR THE PERIOD 1ST JANUARY 2016 TO 30TH JUNE 2016

7. CAPITAL SECURITIES ISSUED	<u>30th Jun 16</u>	<u>31st Dec 15</u>
<b>RESPARC Securities issued</b>		
Opening balance	392,802,121	421,599,650
Effective income adjustment	14,423,441	( 28,797,529)
Closing balance	€ 407,225,562	€ 392,802,121
Notional amount outstanding at the period end	€ 500,000,000	€ 500,000,000

On 28th May 2003 the Partnership issued €500,000,000 aggregate nominal amount of 7.5% Re-Engineered Silent Participation Assimilated Regulatory Capital (RESPARC) Securities (the "RESPARC Securities"), the proceeds from which have been used to acquire a silent capital interest (the "Silent Contribution") in the commercial enterprise of HSH Nordbank in the form of a "Stille Gesellschaft" under German law in the amount of €500,000,000. The nominal amount of each RESPARC Security is €1,000. The RESPARC Securities are listed on the Frankfurt Stock Exchange and the Official Segment of the stock market of Euronext Amsterdam N.V.

The RESPARC Securities bear interest at a rate of 7.5% p.a., accruing from 28th May 2003, payable annually in arrears on the same date as the relevant Profit Participations are received by the Partnership. It is expected that the normal coupon date will be 30th June of each year, commencing 30th June 2004. Coupon payments are contingent on the Partnership's actual receipt of Profit Participation payments from HSH Nordbank under the Participation Agreement and advances from HSH Nordbank Luxembourg under the Loan Agreement.

The RESPARC Securities are perpetual securities, having no mandatory maturity date. However, the Preferred Securities may be redeemed, at the option of HSH Nordbank, on the date on which the Silent Contribution is repaid in accordance with the Participation Agreement. The redemption amount will equal the Repayment Amount required to be paid by HSH Nordbank under the Participation Agreement. The RESPARC Securities will also be redeemable, in whole but not in part, at the option of the Partnership, on 30th June 2009 and annually thereafter. However, such early termination is only permissible if financing of the redemption of the RESPARC Securities at their nominal amount, plus any interest accrued thereon, has been secured through the issuance of similar debt securities or in any other way.

Hybrid instruments will participate in the balance sheet loss/net loss. Coupon payments on the RESPARC Securities are contingent on the receipt of Profit Participation income. Pursuant to the EU Commission's requirements, HSH Nordbank is not permitted to make any payouts on profit participation capital and silent partnerships due to the Bank's net loss or balance sheet loss.

Any change in expected cash flows following the non payment of the Silent Participation in the period and the likelihood of the non payment of the Silent Participation interest in the future result in an equal and opposite effect on the RESPARC Securities. The RESPARC Securities holders therefore bear the ultimate risk of the ability of HSH Nordbank to make payments on the Silent Participation.

The liabilities of the Partnership under the RESPARC Securities are supported by HSH Nordbank Luxembourg under the Support Undertaking, as described in note 8. The holders of the RESPARC Securities are therefore also exposed to the risk of default of HSH Nordbank Luxembourg.

As at 30th June 2016 the estimated fair value of the RESPARC Securities was 19.985% (31st December 2015: 30.067%) of the nominal value. Details regarding how the fair value of the RESPARC Securities have been estimated are disclosed in note 12.

## **RESPARCS FUNDING II LIMITED PARTNERSHIP**

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### **NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)**

#### **FOR THE PERIOD 1ST JANUARY 2016 TO 30TH JUNE 2016**

##### **7. CAPITAL SECURITIES ISSUED - (CONTINUED)**

Pursuant to an announcement made on 8th June 2016, HSH Nordbank now expects that coupon payments on silent participations and profit-participation capital will only take place in 2020 (31st December 2015: 2020) for the fiscal year 2019, at the earliest.

##### **8. SUPPORT UNDERTAKING AND SUPPORT UNDERTAKING FEES**

The liabilities of the Partnership are supported by HSH Nordbank Luxembourg under a Support Undertaking dated 26th May 2003. HSH Nordbank Luxembourg has undertaken to ensure that the Partnership will at all times be in a position to meet its obligations. HSH Nordbank Luxembourg's payment obligations under the Support Undertaking are subordinated to all senior and subordinated debt obligations of HSH Nordbank Luxembourg in the same manner as HSH Nordbank's payment obligations under the Participation Agreement are subordinated. A Support Undertaking Fee is payable by the Partnership to HSH Nordbank Luxembourg, quarterly in arrears on 30th March; 30th June, 30th September and 30th December, calculated at 0.32% p.a. on a nominal amount of €37,500,000.

##### **9. TAXATION**

Any tax liability arising on the activity of the Partnership is borne by the individual Limited Partners.

##### **10. ULTIMATE CONTROLLING PARTY**

In the opinion of the General Partner, based on the terms of the Limited Partnership Agreement, European Equity Participation Management GmbH, incorporated in Germany, is considered to be the controlling party of the Partnership. However, the General Partner acknowledges that, under IFRS, HSH Nordbank is considered to be the ultimate controlling party of the Partnership.

##### **11. RELATED PARTIES**

Each of J.N. Pendergast, J.D. Wiseman and S.J. Hopkins is a Director of the General Partner.

During the period, Sanne Fiduciary Services Limited ("SFSL") and Sanne Secretaries Limited ("SSL") provided administration and secretarial services respectively to the Company at commercial rates. SSL is a subsidiary of SFSL. Each of SSL and SFSL is a member of the "Sanne Group" (where the "Sanne Group" means Sanne Group PLC and all of its subsidiaries and affiliates of the same). Each of J.N. Pendergast, J.D. Wiseman and S.J. Hopkins is a Director and/or employee of SFSL and should be regarded as interested in any transaction with any member of the Sanne Group.

## **RESPARCS FUNDING II LIMITED PARTNERSHIP**

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### **NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)**

#### **FOR THE PERIOD 1ST JANUARY 2016 TO 30TH JUNE 2016**

##### **11. RELATED PARTIES - (CONTINUED)**

The Partnership is consolidated within the HSH Nordbank group and therefore HSH Nordbank and affiliates are related parties in all transactions.

Fees incurred with Sanne Group during the period in respect of administration and management fees are disclosed on the face of the statement of comprehensive income. Fees owed at the period end are disclosed in note 4 to the financial statements. Amounts owed to and from HSH Nordbank and affiliates are disclosed in notes 2, 4, 6 and 7.

Expenses paid on behalf of the General Partner and Trusts during the year are also disclosed on the face of the statement of comprehensive income.

##### **12. FINANCIAL INSTRUMENTS**

As stated in the Report of the General Partner the principal activity of the Partnership is limited to participation in financing activities arranged for HSH Nordbank. The Partnership has issued the RESPARC Securities and the proceeds from which have been used to acquire the Silent Contribution in the commercial enterprise of HSH Nordbank. Therefore, the role of financial assets and financial liabilities is central to the activities of the Partnership; the financial liabilities provided the funding to purchase the Partnership's financial assets. Financial assets and financial liabilities provide the majority of the assets and liabilities.

The strategies used by the Partnership in achieving its objectives regarding the use of its financial assets and financial liabilities were set when the Partnership entered into the transactions. The Partnership has attempted to match the properties of its financial liabilities to its financial assets to avoid significant elements of risk generated by mismatches of investment performance against its obligations, together with any maturity, liquidity or interest rate risk.

###### **Determination of fair value**

The fair values disclosed in these financial statements have been determined for the sole purpose of ensuring compliance with IFRS 13, which requires disclosure of such fair values in these financial statements.

Fair value is defined in accordance with IFRS 13 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants at the measurement date. The fair value of financial instruments may be determined on the basis of listed prices on an active market ("mark-to-market"), or if this is not possible on the basis of recognised valuation techniques or models ("mark-to-matrix" or "mark-to-model" respectively). The mark-to-market method is used if a market price is available at which a transaction could be performed or has been performed at, or reasonably close to, the reporting date. This is generally the case for securities traded on liquid markets. The mark-to-market method has been applied to measure both the fair value of the RESPARC Securities, which are listed on the Frankfurt Stock Exchange and the Official Segment of the stock market of Euronext Amsterdam N.V., and the fair value of the Silent Contribution.

## RESPARCS FUNDING II LIMITED PARTNERSHIP

### NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

#### FOR THE PERIOD 1ST JANUARY 2016 TO 30TH JUNE 2016

#### 12. FINANCIAL INSTRUMENTS - (CONTINUED)

##### Determination of fair value - (continued)

The fair value of the RESPARC Securities has been obtained from quoted market prices. The quoted market price of 19.985% (31st December 2015: 30.067%) was obtained from Bloomberg. The Silent Contribution is neither quoted nor traded in an active market. Consequently, no quoted market price exists for the Silent Contribution. The terms of the Silent Contribution are identical in all material respects to those of the RESPARC Securities, except for the fact that the RESPARC Securities bear interest at a fixed rate of 7.50%, whilst the Silent Contribution bears interest at a fixed rate of 7.65%. Accordingly, in the General Partner's opinion, the fair value of the Silent Contribution is estimated to be approximately equal and opposite to the fair value of the RESPARC Securities at all times. Therefore the quoted market price of the RESPARC Securities represents the best available objective estimate of the fair value of the Silent Contribution.

The table below presents the carrying values and fair values of the Partnership's financial assets and liabilities.

	<u>30th Jun 16</u>		<u>31st Dec 15</u>	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets:</b>				
Silent Contribution	€ 99,925,000	€ 99,925,000	€ 150,335,000	€ 150,335,000
<b>Financial liabilities:</b>				
RESPARC Securities	€ 407,225,562	€ 99,925,000	€ 392,802,121	€ 150,335,000

In the General Partner's opinion the carrying amounts of cash and cash equivalents, loans payable, and trade and other payables are reasonable approximations of the fair value of such financial instruments. Consequently, in accordance with IFRS 7.29(a), no fair value disclosures are provided for such financial instruments.

The General Partner has reviewed the fair value of the RESPARC Securities as at 30th June 2016 and considers that the market price reflects current adverse conditions affecting the financial position of HSH Nordbank to which the holders of the RESPARC Securities are exposed, and is not representative of the likely termination value of the RESPARC Securities.

The effects of market conditions and the future expected profitability of HSH Nordbank on the fair value of the RESPARC Securities are further explained in note 16.

##### Fair value hierarchy

The following table analyses within the fair value hierarchy those of the Partnership's assets and liabilities (by class).

<u>30th June 2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Financial assets:</b>				
Silent Contribution	€ -	€ 99,925,000	€ -	€ 99,925,000
<b>Financial liabilities:</b>				
RESPARC Securities	€ -	€ 99,925,000	€ -	€ 99,925,000

## RESPARCS FUNDING II LIMITED PARTNERSHIP

### NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2016 TO 30TH JUNE 2016

#### 12. FINANCIAL INSTRUMENTS - (CONTINUED)

##### Fair value hierarchy - (continued)

31st December 2015	Level 1	Level 2	Level 3	Total
<b>Financial assets:</b>				
Silent Contribution	€ -	€ 150,335,000	€ -	€ 150,335,000
<b>Financial liabilities:</b>				
RESPARC Securities	€ -	€ 150,335,000	€ -	€ 150,335,000

There were no transfers between Levels during the period. However, in the prior year there was a transfer from level 1 to level 2 for the financial liability due to there being insufficient trading around the year end to justify a level 1 price.

##### Market risk

##### Interest rate risk

Interest rate risk occurs when there is a mismatch between the interest rates of the Partnership's asset and liabilities.

The Partnership finances its operations through the issue of the RESPARC Securities. The coupons payable on the RESPARC Securities are matched by the Profit Participations receivable on the Silent Contribution. Accordingly, the General Partner believes that there is no significant net interest rate risk to the Partnership and/or to the holders of the RESPARC Securities as the interest rates are effectively fixed.

The contractual interest rate profile of the Partnership's financial assets and financial liabilities is as follows. The Profit Participation on the Silent Contribution and the interest on the RESPARC Securities have been suspended as explained in notes 2 and 7.

		<u>30th Jun 16</u>		<u>31st Dec 15</u>	
	Interest charging basis	Effective interest rate %	Carrying value	Effective interest rate %	Carrying value
<b>Financial assets:</b>					
Silent Contribution	Fixed	7.65%	99,925,000	7.65%	150,335,000
Cash and cash equivalents	Floating	nil	171,585	nil	171,774
			€ 100,096,585		€ 150,506,774
<b>Financial liabilities:</b>					
Loans payable	Floating	12M Euribor + 0.3%	1,351,375	12M Euribor + 0.3%	1,269,839
RESPARC Securities	Fixed	7.50%	407,225,562	7.50%	392,802,121
			€ 408,576,937		€ 394,071,960

## **RESPARCS FUNDING II LIMITED PARTNERSHIP**

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### **NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)**

#### **FOR THE PERIOD 1ST JANUARY 2016 TO 30TH JUNE 2016**

#### **12. FINANCIAL INSTRUMENTS - (CONTINUED)**

##### **Market risk - (continued)**

##### *Currency risk*

Currency risk occurs when there is a mismatch between the currencies of the Partnership's assets and liabilities. All of the Partnership's material financial assets and liabilities are denominated in Euro. Consequently, the General Partner believes that there is no significant net currency risk to the Partnership and/or to the holders of the RESPARC Securities.

##### *Sensitivity analysis*

As disclosed above, in the General Partner's opinion, there is no material difference between the fair value of the RESPARC Securities and the fair value of the Silent Contribution. From the perspective of the Partnership, any change in the fair value of the RESPARC Securities would be matched by an equal and opposite change in the fair value of the Silent Contribution. Consequently the Partnership is not exposed to any net market price risk.

Also as disclosed above, in the General Partner's opinion, there is no material net interest rate risk to the Partnership, nor is there any significant net currency rate risk to the Partnership.

IFRS 7 requires disclosure of "a sensitivity analysis for each type of market risk to which the entity is exposed at the reporting date, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date." As stated, whilst the financial instruments held by the Partnership are separately exposed to interest rate risk and market price risk, the Partnership itself is not exposed to market risk overall. Furthermore, the General Partner observes that the total comprehensive income or loss reported by the Partnership each year results primarily from the mismatch in accounting treatment between the Silent Contribution (at fair value) and the RESPARC Securities (at amortised cost) as described in note 1. Given that the terms and conditions of the RESPARC Securities are matched to those of the Silent Contribution, there is no economic exposure of the Partnership to the total comprehensive income or loss resulting from this accounting mismatch. Therefore, in the General Partner's opinion, no sensitivity analysis is required to be disclosed.

##### **Credit risk**

Credit risk arises from the risk that HSH Nordbank and affiliates may not repay, if requested, all amounts due to the Partnership under the Silent Partnership Agreement and any withholding tax receivable. On the basis that the RESPARC Securities issued by the Partnership are limited recourse in nature, with the amount payable to the holders limited to the amounts received under the Silent Participation Agreement, in the opinion of the General Partner, the Partnership has no material net credit risk and all credit risk is ultimately borne by the holders of the RESPARC Securities.

On 25th August 2011, HSH Nordbank issued a Press Release stating that HSH Nordbank would not be servicing its Profit Participation certificates for the fiscal year 2011. On 6th February 2013, the Partnership was informed that HSH Nordbank would not be servicing its Profit Participation certificates until 2017. On 8th June 2016, HSH Nordbank issued an ad-hoc announcement stating that the bank now expects that coupon payments on silent participations and profit-participation capital will only take place in 2020 for the fiscal year 2019, at the earliest. For further details in respect of current market conditions and the credit quality of the financial assets held by the Partnership, please refer to note 16.



## **RESPARCS FUNDING II LIMITED PARTNERSHIP**

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### **NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)**

#### **FOR THE PERIOD 1ST JANUARY 2016 TO 30TH JUNE 2016**

#### **12. FINANCIAL INSTRUMENTS - (CONTINUED)**

##### **Credit risk - (continued)**

As at 30th June 2016 and up to the date of approval of these financial statements, the RESPARC Securities had a long term credit rating of Ca from Moody's (31st December 2015: Ca).

HSH Nordbank AG has a long term credit rating of Baa3 from Moody's (31st December 2015: Baa3).

##### **Maturity of financial assets and liabilities**

The maturity profile of the undiscounted contractual cash flows of the Partnership's financial assets and financial liabilities is as follows:

	<u>30th Jun 16</u>		<u>31st Dec 15</u>	
	Financial Assets	Financial Liabilities	Financial Assets	Financial Liabilities
Less than one year	171,585	1,433,987	171,774	1,351,640
In more than five years	500,000,000	500,000,000	500,000,000	500,000,000
	<u>€ 500,171,585</u>	<u>€ 501,433,987</u>	<u>€ 500,171,774</u>	<u>€ 501,351,640</u>

In the opinion of the General Partner, given the above maturity profile and the limited recourse nature of the RESPARC Securities and the existence of the Support Undertaking and the liquidity facility, the Partnership is not exposed to significant net liquidity risk. Liquidity risk is ultimately borne by the holders of the RESPARC Securities.

#### **13. CAPITAL MANAGEMENT**

The Partnership's transactions are designed to enable the Partnership to pay its liabilities as they fall due only, without realising a significant return on capital. The level of interest income receivable on the Silent Contribution and interest expense payable on the RESPARC Securities are fixed and were established on formation of the Partnership in order that the Partnership realises a margin that is sufficient to pay the on going operational expenses of the Partnership and any loan interest payable on the liquidity facility.

As further explained in note 16, no profit participation income has been received since 2008 and therefore no margin has been realised. The operational expenses, loan interest and support undertaking fees of the Partnership will be provided by funding received from HSH Luxembourg under the Support Undertaking Agreement by virtue of the liquidity facility.

There were no changes to the Partnership's approach to capital management during the period.

The Partnership is not subject to externally imposed capital requirements.

## **RESPARCS FUNDING II LIMITED PARTNERSHIP**

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### **NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)**

#### **FOR THE PERIOD 1ST JANUARY 2016 TO 30TH JUNE 2016**

#### **14. OPERATING SEGMENTS**

##### *Geographical information*

All of the Partnership's revenues and expenses are generated from external sources. The Partnership generated revenue of €nil during the period (2015: €nil).

##### *Non-current assets*

The Partnership does not have non-current assets other than the available-for-sale financial asset.

##### *Major investment company*

The Partnership's Profit Participation income is derived solely from HSH Nordbank.

#### **15. KEY MANAGEMENT PERSONNEL**

The key management personnel have been identified as being the Directors of the General Partner. The emoluments of the key management personnel are paid by the Partnership and are included in administration fees in the statement of comprehensive income.

#### **16. CURRENT MARKET CONDITIONS**

##### **HSH Nordbank**

As detailed in note 9 the Partnership benefits from a Support Undertaking from HSH Nordbank Luxembourg. The ability of HSH Nordbank Luxembourg to meet its obligations to the Partnership under the Support Undertaking are contingent upon the financial strength of HSH Nordbank Luxembourg, as well as the ability of the HSH Nordbank group to continue as a going concern.

On 2nd June 2009 the federal state of Schleswig-Holstein and the Free and Hanseatic City of Hamburg granted HSH Nordbank AG a guarantee facility in the amount of €10 billion via the HSH Finanzfonds AöR in order to secure the future of the HSH Nordbank AG Group. The agreement on the provision of the guarantee facility as well as a related recapitalisation of the HSH Nordbank AG Group are subject to approval by the European Commission in line with the law regarding state aid.

The EU Commission concluded these state aid proceedings at the end of September 2011 and entered into an agreement on conditions and commitments with all the parties involved. This means that the measures to support HSH Nordbank AG have been approved in a legally binding manner.

Due to the progress made in the winding-down of risk positions, HSH Nordbank was able to reduce the second loss guarantee issued by the federal states of Hamburg and Schleswig-Holstein. The guarantee amount was reduced from an initial €10 billion to €7 billion in September 2011 through a total of three partial reductions made during the course of the year 2011. With the reduction in the guarantee, the fee payable for the guarantee was also reduced.

## **RESPARCS FUNDING II LIMITED PARTNERSHIP**

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### **NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)**

#### **FOR THE PERIOD 1ST JANUARY 2016 TO 30TH JUNE 2016**

##### **16. CURRENT MARKET CONDITIONS - (CONTINUED)**

###### **HSH Nordbank - (continued)**

The federal states of Hamburg and Schleswig-Holstein re-increased the second loss guarantee for the Bank from €7 billion to the original facility of €10 billion at the end of June 2013.

The guarantee increase was provisionally approved by the EU Commission in June 2013 after the consent of the parliaments of the federal states of Hamburg and Schleswig-Holstein had been given. At the same time the EU Commission initiated a formal investigation to determine whether the measure is in accordance with EU rules on state aid and within the framework of the measures already approved in 2011.

As at the date of approval of these financial statements, the situation regarding the investigation by the EU Commission, as presented in the financial statements of HSH Nordbank AG, is described as follows:

###### **Formal decision in the current EU state aid proceedings**

On 2nd May 2016, the EU Commission issued a formal decision in the current EU state aid proceedings and thereby approved the replenishment of the second loss guarantee provided by the federal states from €7 billion to €10 billion. This formal decision confirms the informal agreement of 19th October 2015 and, in principle, defines it in concrete terms. It is based on a list of conditions and commitments provided by the Federal Republic of Germany to the EU Commission. The structural measures agreed should result in an improved financial and risk situation following implementation and form the basis for a sound structure and viable business model for HSH Nordbank.

The structural measures relate to the transfer of non-performing loans of €5 billion to the federal state owners at market values determined by the EU Commission under state aid aspects and the sale of a portfolio of €3.2 billion in the market. A further point in the EU decision is the change to the fee structure for the second loss guarantee which is linked to the formation of a holding company and a subsidiary, which comprises HSH Nordbank's operating business and is to be privatised. Furthermore, it is intended to sell the operating company by 28th February 2018. This divestiture deadline is met upon the signing of a purchase agreement and may be extended by up to six months with the consent of the EU Commission, where there are delays in the technical implementation of the model for reasons outside the control of the federal states.

The impact of the informal agreement, which was confirmed in detail and defined in concrete terms by the formal decision, on the net assets, financial position and earnings had to be recognised in the 2015 annual and Group financial statements in accordance with the applicable accounting rules given the conditions established by the federal state owners as at the 2015 year end. The implementation of the structural measures planned for the first half of 2016 was completed on schedule. On the one hand, a portfolio of non-performing shipping loans of € 5 billion (as of 31st December 2015 reporting date) was transferred on 30th June 2016 to the federal state owned hsh portfoliomanagement AöR, under which the Bank was relieved of the burden of legacy loans to an appreciable extent. In this connection the Bank received from hsh portfoliomanagement AöR the market price of €2.4 billion as stipulated by the EU Commission. The loss incurred of € 2.6 billion is charged under the guarantee as part of the invoicing of losses. On the other hand, the holding structure was established which provided the operating HSH Nordbank with considerable relief from guarantee fees. Under this the operating company pays from 1 January 2016 a base premium of 2.2% (previously 4%) for the provision of the second loss guarantee that is calculated solely on the unutilised, i.e. undrawn, portion of the guarantee.

## **RESPARCS FUNDING II LIMITED PARTNERSHIP**

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### **NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)**

#### **FOR THE PERIOD 1ST JANUARY 2016 TO 30TH JUNE 2016**

##### **16. CURRENT MARKET CONDITIONS - (CONTINUED)**

###### **Formal decision in the current EU state aid proceedings - (continued)**

The implementation of the holding structure is accompanied by a change in the ownership structure of HSH Nordbank AG.

The principal owner of the operating HSH Nordbank AG is HSH Beteiligungs Management GmbH with 94.9% as at 30th June 2016. Private investors advised by J.C.Flowers & Co. LLC also hold 5.1%. The Free and Hanseatic City of Hamburg and Federal State of Schleswig-Holstein hold a total shareholding of 89.35% in HSH Nordbank AG indirectly via HSH Beteiligungs Management GmbH and the Savings Bank Association 5.55%.

Besides the implementation of the EU agreement the Bank has started work in the third quarter 2016 on the preparations for the planned portfolio sales of up to €3.2 billion in the market. The Bank's owners have for their part initiated measures for the upcoming change in owners. In this connection, the Bank has made personnel and organisational changes in order to further strengthen the business model and thereby contribute to a successful sales process.

##### **17. EVENTS AFTER THE PERIOD END**

In the opinion of the General Partner, there has been no significant events occurred subsequent to the period end that require adjustment or disclosure in the financial statements.