RESPARCS FUNDING II LIMITED PARTNERSHIP

ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2016

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REPORT OF THE GENERAL PARTNER

The General Partner, European Capital Investment Opportunities Limited, presents its annual report and the audited financial statements of RESPARCS Funding II Limited Partnership (the "Partnership") for the year ended 31st December 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.

As at 31st December 2016 the fair value of the RESPARC Securities was 15.5% (31st December 2015: 30.067%) of the nominal value.

For further details on activity of the Partnership and events during the year please refer to note 2 and note 8.

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 year end. Detailed information on the General Partner's assessment of going concern is disclosed in note 1.

RESULTS FOR THE YEAR

The total comprehensive loss for the year amounted to €102,604,948 (2015: total comprehensive income of €8,783,000).

DIRECTORS

The Directors of the General Partner who held office during the year 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.

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 year which give a true and fair view of the surplus or deficit of the Partnership for the year and of the state of affairs at the end of the year. 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 year 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 audited financial statements for the year ended 31st December 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 year and their impact on the financial statements. The principal risks and uncertainties faced by the Partnership are disclosed in note 13 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: 19th April 2017

KPMG

KPMG Channel Islands Limited
37 Esplanade
St Helier
Jersey JE4 8WQ
Channel Islands

Independent auditor's report to the partners of RESPARCS Funding II Limited Partnership

We have audited the financial statements of RESPARCS Funding II Limited Partnership ("the Partnership") for the year ended 31 December 2016 which comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Partners' Equity, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law, the limited partnership agreement and International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

This report is made solely to the partners, as a body, in accordance with the limited partnership agreement and our terms of engagement as detailed in our letter of 2 February 2017. Our audit work has been undertaken so that we might state to the partners those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Partnership and the partners as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the general partner and auditor

As explained more fully in the Statement of General Partner's Responsibilities set out on page 3, the General Partner is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to Partnership's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the general partner; and the overall presentation of the financial statements. In addition we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

KPMG Channel Islands Limited
37 Esplanade
St Helier
Jersey JE4 8WQ
Channel Islands

Independent auditor's report to the partners of RESPARCS Funding II Limited Partnership – continued

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of Partnership's affairs as at 31 December 2016 and of its total comprehensive loss for the year then ended;

- have been properly prepared in accordance with the International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB); and

- have been prepared in accordance with the requirements of the limited partnership agreement.

Emphasis of matter – going concern and the carrying values of Silent Participation and Captial Securities

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of disclosures made in notes 1, 2, 8, 13 and 17 regarding the current market conditions that have affected HSH Nordbank AG's ability to continue as a going concern and the assessment made by the Directors of the General Partner, of the expected future cash flows receivable from the Silent Participation and payable on the Capital Securities. We bring this matter to your attention due to its significance.

Steven Hunt
For and on behalf of KPMG Channel Islands Limited
Chartered Accountants
21 April 2017

Notes:

- The maintenance and integrity of the website on which the financial statements are published is the responsibility of the general partner; the work carried out by auditors does not involve consideration of these matters and accordingly, KPMG Channel Islands Limited accepts no responsibility for any changes that may have occurred to the financial statements or our audit report since they were initially presented on the website.

- Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. The general partner shall remain responsible for establishing and controlling the process for doing so, and for ensuring that the financial statements are complete and unaltered in any way.

STATEMENT OF FINANCIAL POSITION

AS AT 31ST DECEMBER 2016

	Notes	31st Dec 16	31st Dec 15
ASSETS			
NON-CURRENT ASSETS			
Available-for-sale financial assets	2	77,500,000	150,335,000
CURRENT ASSETS			
Trade and other receivables	3	2,500	-
Cash and cash equivalents	4	171,489	171,774
		173,989	171,774
TOTAL ASSETS		€ 77,673,989	€ 150,506,774
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Capital account	6	1,000	1,000
Capital contribution	6	1,501,807	1,501,807
Retained deficit		(4,386,580)	(4,604,002)
Revaluation reserve		(343,368,162)	(240,545,792)
TOTAL PARTNERS' DEFICIT		(346,251,935)	(243,646,987)
NON-CURRENT LIABILITIES			
Capital securities issued	8	422,345,955	392,802,121
CURRENT LIABILITIES			
Loans payable	7	1,473,241	1,269,839
Trade and other payables	5	106,728	81,801
		1,579,969	1,351,640
TOTAL LIABILITIES		423,925,924	394,153,761
TOTAL EQUITY AND LIABILITIES		€ 77,673,989	€ 150,506,774

The financial statements on pages 6 to 30 were approved and authorised for issue by the Board of the General Partner on the 19th day of April 2017 and were signed on its behalf by:

Director:

(The notes on pages 10 to 30 form part of these financial statements)

RESPARCS FUNDING II LIMITED PARTNERSHIP

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31ST DECEMBER 2016

	Notes	1st Jan 16 to 31st Dec 16	1st Jan 15 to 31st Dec 15
FINANCE INCOME			
Finance income:			
- effective income adjustment on Silent Contribution	2	29,987,370	(29,231,677)
Unrealised gain on exchange		5,184	-
Other income		273	-
TOTAL INCOME		29,992,827	(29,231,677)
EXPENDITURE			
Transaction fee		293	343
Support undertaking fees		121,667	121,667
Legal and professional fees		10,537	5,735
Administration fees		44,178	50,272
Management fees		4,301	4,862
Partnership fees		195	192
Audit fees		21,516	20,103
ISE fees		261	256
Bank charges		286	314
Expenses paid on behalf of General Partner and Trust		27,866	30,522
German fiscal fees payable		250	250
Unrealised loss on exchange		-	3,171
		231,350	237,687
FINANCE EXPENDITURE			
Finance costs:			
- effective income adjustment on Capital Securities	8	29,543,834	(28,797,529)
Loan interest		221	11,842
TOTAL EXPENDITURE		29,775,405	(28,548,000)
PROFIT/(LOSS) FOR THE YEAR		217,422	(683,677)
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently from other comprehensive income to profit or loss			
Change in fair value of available-for-sale financial assets	2	(102,822,370)	9,466,677
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		€ (102,604,948)	€ 8,783,000

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 10 to 30 form part of these financial statements)

STATEMENT OF CHANGES IN PARTNERS' EQUITY

FOR THE YEAR ENDED 31ST DECEMBER 2016

	Capital account	Capital contribution	Retained deficit	Revaluation reserve	Total
	€	€	€	€	€
Balance at 1st January 2016	1,000	1,501,807	(4,604,002)	(240,545,792)	(243,646,987)
Comprehensive income:					
- Profit for the year	-	-	217,422	-	217,422
- Other comprehensive loss for the year	-	-	-	(102,822,370)	(102,822,370)
Balance at 31st December 2016	1,000	1,501,807	(4,386,580)	(343,368,162)	(346,251,935)
Balance at 1st January 2015	1,000	1,501,807	(3,920,325)	(250,012,469)	(252,429,987)
Comprehensive income:					
- Loss for the year	-	-	(683,677)	-	(683,677)
- Other comprehensive income for the year	-	-	-	9,466,677	9,466,677
Balance at 31st December 2015	1,000	1,501,807	(4,604,002)	(240,545,792)	(243,646,987)

(The notes on pages 10 to 30 form part of these financial statements)

RESPARCS FUNDING II LIMITED PARTNERSHIP

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31ST DECEMBER 2016

	Notes	1st Jan 16 to 31st Dec 16	1st Jan 15 to 31st Dec 15
Cash flows from operating activities			
Profit/(loss) for the year		217,422	(683,677)
Increase in trade and other payables		24,927	14,862
(Increase)/decrease in trade and other receivables		(2,500)	3,024
Effective income adjustment on Silent Contribution	2	(29,987,370)	29,231,677
Effective income adjustment on Capital Securities	8	29,543,834	(28,797,529)
Net cash outflow from operating activities		(203,687)	(231,643)
Cash flows from financing activities			
Amount drawn under liquidity facility		203,402	231,198
Net cash inflow from financing activities		203,402	231,198
Net decrease in cash and cash equivalents		(285)	(445)
Cash and cash equivalents at the beginning of the year		171,774	172,219
Cash and cash equivalents at the end of the year	4	€ 171,489	€ 171,774

(The notes on pages 10 to 30 form part of these financial statements)

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 years 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 7), the limited recourse commercial nature of the RESPARC Securities, and the fact that 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 furthermore reported by the group position as disclosed in note 17.

Accounting and measurement are based on the assumption that the Bank is a going concern. The Bank's corporate planning forms the basis for the going concern assumption. Assessments, which form the basis for the Bank's corporate planning and in particular the planning for the movement in loan loss provisions over the long-term, the payment default plan and the resultant actual drawdown of the second loss guarantee, take information available to the Directors of the General Partner at this time into account. These assessments are dependent on factors that are mostly outside the control of the Bank and are therefore subject to a significant degree of uncertainty. This applies, for example, to expectations regarding macroeconomic trends, exchange rates, freight and charter rates or changes in the regulatory framework. Furthermore, the very long planning horizon for the long-term loan loss provision planning results in significant uncertainty. One key assumption used in corporate planning in view of the ongoing sale process of HSH Nordbank AG is the overall sale of HSH Nordbank AG as a whole, i.e. the sale of all shares in the Bank, including all assets and liabilities, as a preferred solution without any early disposals of assets or sub-areas at amounts below the carrying amount in the event of outstanding bids for an overall sale. In its forecasts and assumptions, the Bank has assumed the sale of the overall bank, as scheduled, adhering to the time schedule agreed in the agreed list of conditions and commitments. In its forecasts and assumptions, the Bank has assumed the sale of the conditions and commitments, so that no adverse effects on the business model of HSH Nordbank AG arise. Insofar the planning is based on the assumption that a potential buyer would in principle continue with the Bank's business model. Within this context, it is assumed that the viability assessment to be performed by the European Commission following a successful change of ownership will have a positive outcome, meaning that the Bank will comply with all of the agreements reached in the EU proceedings.

1. ACCOUNTING POLICIES - (CONTINUED)

Going concern - (continued)

As it is not possible to objectively predict the course and outcome of the privatisation process, the process involved in the sale of HSH Nordbank AG creates considerable uncertainty regarding the implementation of the corporate planning, the determination of the loan loss provisions and accounting and measurement. Additional assumptions, uncertainties, opportunities and risks of corporate planning as well as the structural measures are discussed in the Group Management Report in the section "Forecast, opportunities and risks report".

The assumption of the Bank as a going concern for accounting and measurement purposes and the assumption of the continued survival of HSH Nordbank AG and significant group companies are based in particular on the fact that:

(i) the agreements required for the implementation of the 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 decision will be implemented by HSH Nordbank AG and its shareholders in full and on a timely basis.

(ii) the operating company, HSH Nordbank AG, is sold at a positive sales price in an open, non-discriminatory, competitive and transparent process not involving state aid until 28 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. If the Bank ends up being wound down as a result of the above or for other reasons, or if its rating is downgraded or other adverse developments emerge during the privatisation period, then this could trigger outflows of short-term funds and fundamentally restrict HSH Nordbank's funding options. In the event of major unexpected fund outflows, additional measures will need to be taken by the owners and/or third parties to strengthen the liquidity situation.

(iii) as part of the ongoing privatisation process of HSH Nordbank AG, HSH Nordbank AG will be sold in full as an overall bank, i.e. the shares in the Bank will be disposed of, including all assets and liabilities, without any material early disposals of assets or sub-areas at amounts below the carrying amount in the event of outstanding bids for an overall sale. If extensive sales of loan portfolios, particularly in the Non-Core Bank, are required, then this could result in significant additional loan loss provision expenses that are not compensated for by the guarantee, and could require the material depreciation of deferred taxes.

(iv) the minimum capital requirements at all regulatory levels can be adhered to in accordance with the corresponding European Supervisory Review and Evaluation Process ("SREP") resolutions passed by the European Central Bank and the statutory provisions during the forecast period. If there is a need for significant additional loan loss provision expenses and the material depreciation of deferred taxes (e. g. in the scenario described above) or if the recovery on the shipping market that has been assumed in the Bank's corporate planning does not materialise as planned, or the significant risk transfer for the second loss guarantee is no longer ensured from the perspective of the banking supervisory authority, then this could put considerable pressure on the capital ratios and additional measures may need to be taken by the owners and/or third parties to strengthen the capital ratios in order to be able to adhere to the minimum capital requirements, particularly at the level of the financial holding group. If such measures are not taken, this could result in the winding down of HSH Nordbank.

1. ACCOUNTING POLICIES - (CONTINUED)

Going concern - (continued)

(iv) 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.

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 year

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 year 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.

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 year. 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 year in which the estimate is revised and in any future years 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 13; (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.

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 year 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 year ended 31st December 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.

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 8), 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.

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 year.

The estimated fair values of the Silent Participation and the Securities are disclosed in note 13.

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 year.

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 year-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 year ended 31st December 2016 (2015: none).

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 15).

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

	31st Dec 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	29,987,370	(29,231,677)
Closing balance	420,868,162	390,880,792

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

Fair value adjustment:	31st Dec 16	31st Dec 15
Opening balance	(240,545,792)	(250,012,469)
Movement during the year	(102,822,370)	9,466,677
Closing balance	(343,368,162)	(240,545,792)
Fair value	€ 77,500,000	€ 150,335,000
Notional amount outstanding at the year 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.

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 back ground 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. This is consistent with the assumptions regarding future cashflows as outlined in the section on effective income adjustments

Details regarding how the fair value of the Silent Contribution has been estimated are disclosed in note 13.

3. TRADE AND OTHER RECEIVABLES

	2016	2015
Prepayments	€ 2,500	€ -

4. CASH AND CASH EQUIVALENTS

	31st Dec 16	31st Dec 15
HSH Nordbank - EUR account	€ 171,489	€ 171,774

5. TRADE AND OTHER PAYABLES

	31st Dec 16	31st Dec 15
Administration fees payable	12,445	13,928
Loan interest payable	40,374	40,153
Support undertaking fees payable	30,333	-
Audit fee payable	23,282	26,381
Sundry payable	-	1,000
Transaction fee payable	294	339
	€ 106,728	€ 81,801

5. TRADE AND OTHER PAYABLES - (CONTINUED)

As explained in note 2, there has been no Profit Participation income receivable during the years ended 31st December 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 31st December 2016 and 31st December 2015 in respect of interest payable. Please refer to note 17 for further details.

6. 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.

7. LOANS PAYABLE

	31st Dec 16	31st Dec 15
Liquidity Facility	€ 1,473,241	€ 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%.

8. CAPITAL SECURITIES ISSUED

	31st Dec 16	31st Dec 15
RESPARC Securities issued		
Opening balance	392,802,121	421,599,650
Effective income adjustment	29,543,834	(28,797,529)
Closing balance	€ 422,345,955	€ 392,802,121
Notional amount outstanding at the year 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 such as the Silent Contribution 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 year 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 9. The holders of the RESPARC Securities are therefore also exposed to the risk of default of HSH Nordbank Luxembourg.

As at 31st December 2016 the estimated fair value of the RESPARC Securities was 15.5% (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 13.

8. 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 for the fiscal year 2019, at the earliest.

9. 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.

10. TAXATION

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

11. 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.

12. RELATED PARTIES

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

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

12. 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 year in respect of administration and management fees are disclosed on the face of the statement of comprehensive income. Fees owed at the year 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, 5, 7 and 8.

Expenses paid on behalf of the General Partner and the Limited Partner and their respective holding entities during the year are also disclosed on the face of the statement of comprehensive income.

13. 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 estimated 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.

13. 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 15.5% (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.

	31st Dec 16		31st Dec 15	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets:				
Silent Contribution	€ 77,500,000	€ 77,500,000	€ 150,335,000	€ 150,335,000
Financial liabilities:				
RESPARC Securities	€ 422,345,955	€ 77,500,000	€ 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 31st December 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 17.

Fair value hierarchy

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

31st December 2016	Level 1	Level 2	Level 3	Total
Financial assets:				
Silent Contribution	€ -	€ 77,500,000	€ -	€ 77,500,000
Financial liabilities:				
RESPARC Securities	€ -	€ 77,500,000	€ -	€ 77,500,000

13. FINANCIAL INSTRUMENTS - (CONTINUED)

Fair value hierarchy - (continued)

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

There were no transfers between Levels during the year.

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 8.

		31st Dec 16		31st Dec 15	
	Interest charging basis	Effective interest rate %	Carrying value	Effective interest rate %	Carrying value
Financial assets:					
Silent Contribution	Fixed	7.65%	77,500,000	7.65%	150,335,000
Cash and cash equivalents	Floating	nil	171,489	nil	171,774
			€ 77,671,489		€ 150,506,774
Financial liabilities:					
Loans payable	Floating	12M Euribor + 0.3%	1,473,241	12M Euribor + 0.3%	1,269,839
RESPARC Securities	Fixed	7.50%	422,345,955	7.50%	392,802,121
			€ 423,819,196		€ 394,071,960

13. 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 17.

13. FINANCIAL INSTRUMENTS - (CONTINUED)

Credit risk - (continued)

As at 31st December 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 set out below. The following table does not include contractual interest payable on the RESPARC Securities nor Profit Participations receivable on the Silent Contribution because such amounts are considered to be immaterial given that the RESPARC Securities and Silent Contribution may be redeemed on 30th June in any year.

	2016		2015	
	Financial Assets	Financial Liabilities	Financial Assets	Financial Liabilities
Less than one year	173,989	1,579,969	171,774	1,351,640
In more than five years	500,000,000	500,000,000	500,000,000	500,000,000
	€ 500,173,989	€ 501,579,969	€ 500,171,774	€ 501,351,640

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.

14. 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 17, 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 year.

The Partnership is not subject to externally imposed capital requirements.

15. 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 year (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.

16. 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.

17. 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.

17. 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

The EU decision reached on 2 May 2016 regarding the replenishment of the second loss guarantee issued by the federal states from € 7.0 billion to € 10.0 billion confirms the informal agreement made on 19 October 2015 and, in principle, defines it in concrete terms and is based on a list of conditions and commitments provided to the EU Commission by the Federal Republic of Germany (EU decision). The purpose of the agreed structural measures is to improve the financial and risk situation and create the basis for a sustainable structure and viable business model for HSH Nordbank.

The structural measures include the sale of non-performing loans of € 5.0 billion to the federal state owners at market values determined by the EU Commission under state aid aspects and the sale of a legacy portfolio mainly covered by the guarantee of up to € 3.2 billion in the market. A further point in the EU decision is the change relating to the future 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 28 February 2018. This divestment 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 Com-mission where there are delays in the technical implementation of the model for reasons outside the control of the federal states.

Rigorous implementation of the EU structural measures

Following the EU decision the Bank immediately started making preparations and implementing the structural measures. Important structural measures were completed as far as possible in line with the plan.

17. CURRENT MARKET CONDITIONS - (CONTINUED)

Rigorous implementation of the EU structural measures - (continued)

In this connection, a portfolio of non-performing shipping loans of €5 billion had already been sold to the federal state-owned hsh portfoliomanagement AöR as at 30 June 2016 (reporting date: 31 December 2015), under which the Bank was relieved to an appreciable extent of the burden of legacy loans in the Shipping division, which were entered into as part of the significant business expansion in the years up to 2009. The sales price (€2.4 billion) determined by the EU Commission for this portfolio was paid to the Bank in the third quarter of 2016, thereby further improving the Bank's liquidity position. Losses (€2.6 billion) incurred on the sale were invoiced under the guarantee as part of the settlement of losses, of which €1.3 billion was attributable to the first loss piece and €1.3 billion to the second loss piece of the guarantee. The second loss piece was drawn down by €1.9 billion in total as at 31 December 2016. Nevertheless, the Bank has a very high portfolio of legacy assets from the years prior to 2009 due to the complex settlement conditions under the guarantee agreement and the low level of relief relative to the total NPE volume provided under the EU decision, which is making the privatisation process more difficult, and continues to be systematically wound down.

Furthermore, the holding structure was established in the second quarter of 2016 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, which is calculated solely on the utilised, i.e. indrawn, portion of the guarantee (previously calculated on the nominal amount of the guarantee facility).

The implementation of the holding structure also entailed a change in the ownership structure of HSH Nordbank. The principal owner of the operating HSH Nordbank is HSH Beteiligungs Management GmbH with a shareholding of 94.9%. Private investors advised by J.C. Flowers & Co. LLC. also have a shareholding of 5.1%.

The Bank also started making intensive preparations in the second half of 2016 for the planned portfolio sales in the market. The sale of non-performing loans of up to € 3.2 billion was approved as part of the implementation of the EU decision. In this regard, the Bank selected important legacy portfolios with a clear focus on further reducing risk on the Bank's balance sheet (market portfolio) and conducted a sales process in various phases. As a result of this process, a contractual agreement for the sale of a loan portfolio of around € 1.6 billion was signed on 27 January 2017. This represents a slight delay in the planned implementation by the 2016 year end. The impact on earnings was nevertheless recognised in the financial statements as at 31 December 2016.

This portfolio mainly consists of around € 0.8 billion of aircraft financing transactions and around € 0.5 billion of Continental European commercial real estate loans from the years prior to 2009. Additional relief of around € 0.3 billion was also achieved by HSH Nordbank by individual sales to other investors and principal repayments within the portfolio originally held for sale. The parties have agreed not to disclose details of the purchase price. In addition to meeting further conditions the purchase agreements still require approval from the cartel authorities, which is expected to be received in the second quarter of 2017.

18. EVENTS AFTER THE YEAR END

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