

RESPARCS FUNDING II LIMITED PARTNERSHIP
INTERIM REPORT AND UNAUDITED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30TH JUNE 2017

RESPARCS FUNDING II LIMITED PARTNERSHIP

TABLE OF CONTENTS

	<u>Pages</u>
Report of the General Partner	2 and 3
Statement of financial position	4
Statement of comprehensive income	5
Statement of changes in partners' equity	6
Statement of cash flows	7
Notes to the financial statements	8 to 31

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 2017.

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 30th June 2017 the fair value of the RESPARC Securities was 20.97% (31st December 2016: 15.5%) of the nominal value.

For further details on activity of the Partnership and events during the period 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 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 €1,809,033 (2016: €128,762).

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

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 2017 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 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: 31st August 2017

RESPARCS FUNDING II LIMITED PARTNERSHIP

STATEMENT OF FINANCIAL POSITION

AS AT 30TH JUNE 2017

	<u>Notes</u>	<u>30th Jun 17</u>	<u>31st Dec 16</u>
ASSETS			
NON-CURRENT ASSETS			
Available-for-sale financial assets	2	104,850,000	77,500,000
CURRENT ASSETS			
Trade and other receivables	3	1,679,118	2,500
Cash and cash equivalents	4	171,397	171,489
		1,850,515	173,989
TOTAL ASSETS	€	<u>106,700,515</u>	€ <u>77,673,989</u>
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Capital account	6	1,000	1,000
Capital contribution	6	1,501,807	1,501,807
Retained deficit		(2,577,547)	(4,386,580)
Revaluation reserve		(331,687,469)	(343,368,162)
TOTAL PARTNERS' DEFICIT		<u>(332,762,209)</u>	<u>(346,251,935)</u>
NON-CURRENT LIABILITIES			
Capital securities issued	8	437,767,479	422,345,955
CURRENT LIABILITIES			
Loans payable	7	1,605,221	1,473,241
Trade and other payables	5	90,024	106,728
		1,695,245	1,579,969
TOTAL LIABILITIES		<u>439,462,724</u>	<u>423,925,924</u>
TOTAL EQUITY AND LIABILITIES	€	<u>106,700,515</u>	€ <u>77,673,989</u>

The financial statements on pages 4 to 31 were approved and authorised for issue by the Board of the General Partner on the 31st day of August 2017 and were signed on its behalf by:

Director:



(The notes on pages 8 to 31 form part of these financial statements)

RESPARCS FUNDING II LIMITED PARTNERSHIP

STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD 1ST JANUARY 2017 TO 30TH JUNE 2017

	<u>Notes</u>	<u>1st Jan 17 to 30th Jun 17</u>	<u>1st Jan 16 to 30th Jun 16</u>
FINANCE INCOME			
Finance income:			
- effective income adjustment on Silent Contribution	2	15,669,307	14,634,739
Income from HSH Nordbank AG under Compensation Agreement	18	1,679,162	-
Unrealised gain on exchange		773	5,339
TOTAL INCOME		<u>17,349,242</u>	<u>14,640,078</u>
EXPENDITURE			
Support undertaking fees		60,667	30,333
Legal and professional fees		2,785	1,873
Administration fees		26,626	20,726
Management fees		2,067	2,256
Audit fees		9,589	20,340
ISE fees		235	-
Bank charges		92	191
Non-recoverable withholding tax	18	44	-
Expenses paid on behalf of General Partner and Trust		16,488	11,969
		<u>118,593</u>	<u>87,688</u>
FINANCE EXPENDITURE			
Finance costs:			
- effective income adjustment on Capital Securities	8	15,421,524	14,423,441
Loan interest		92	187
TOTAL EXPENDITURE		<u>15,540,209</u>	<u>14,511,316</u>
PROFIT FOR THE PERIOD		<u>1,809,033</u>	<u>128,762</u>
OTHER COMPREHENSIVE INCOME			
<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	11,680,693	(65,044,739)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	€	<u>13,489,726</u>	€ (<u>64,915,977</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 31 form part of these financial statements)

RESPARCS FUNDING II LIMITED PARTNERSHIP**STATEMENT OF CHANGES IN PARTNERS' EQUITY****FOR THE PERIOD 1ST JANUARY 2017 TO 30TH JUNE 2017**

	Capital account	Capital contribution	Retained deficit	Revaluation reserve	Total
	€	€	€	€	€
Balance at 1st January 2017	1,000	1,501,807	(4,386,580)	(343,368,162)	(346,251,935)
Comprehensive income:					
- Profit for the period	-	-	1,809,033	-	1,809,033
- Other comprehensive income for the period	-	-	-	11,680,693	11,680,693
Balance at 30th June 2017	<u>1,000</u>	<u>1,501,807</u>	<u>(2,577,547)</u>	<u>(331,687,469)</u>	<u>(332,762,209)</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>

(The notes on pages 8 to 31 form part of these financial statements)

RESPARCS FUNDING II LIMITED PARTNERSHIP

STATEMENT OF CASH FLOWS

FOR THE PERIOD 1ST JANUARY 2017 TO 30TH JUNE 2017

	<u>Notes</u>	<u>1st Jan 17 to 30th Jun 17</u>	<u>1st Jan 16 to 30th Jun 16</u>
Cash flows from operating activities			
Profit for the period		1,809,033	128,762
(Decrease)/increase in trade and other payables	5	(16,704)	811
Increase in trade and other receivables	3	(1,676,618)	-
Effective income adjustment on Silent Contribution	2	(15,669,307)	(14,634,739)
Effective income adjustment on Capital Securities	8	15,421,524	14,423,441
Net cash outflow from operating activities		(132,072)	(81,725)
Cash flows from financing activities			
Amount drawn under liquidity facility		131,980	81,536
Net cash inflow from financing activities		131,980	81,536
Net decrease in cash and cash equivalents		(92)	(189)
Cash and cash equivalents at the beginning of the period		171,489	171,774
Cash and cash equivalents at the end of the period	4	€ 171,397	€ 171,585

Reconciliation of movement in net debt

	Liabilities	Cash	Net Debt
Opening balance as at 1st January 2017	(423,925,924)	171,489	(423,754,435)
Movement during the period	(15,536,800)	(92)	(15,536,892)
Closing balance as at 30th June 2017	€ (439,462,724)	€ 171,397	€ (439,291,327)

(The notes on pages 8 to 31 form part of these financial statements)

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD 1ST JANUARY 2017 TO 30TH JUNE 2017

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

Regarding the going concern assumption, we refer to the discussion in the interim Group management report in the section "Opportunities and risks resulting from the formal decision in the EU state aid proceedings". It is stated there that the going concern assumption for accounting and measurement purposes and the assumption of the continued going concern of HSH Nordbank and significant group companies is based in particular on the following assumptions:

(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 sale 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. In the event that the Bank is 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 case of major unexpected fund outflows, additional measures will need to be taken by the owners and/or third parties to strengthen the liquidity situation.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2017 TO 30TH JUNE 2017

1. ACCOUNTING POLICIES - (CONTINUED)

Going concern - (continued)

(iii) as part of the ongoing privatisation process of HSH Nordbank AG, HSH Nordbank AG will be sold in full as a whole bank, i. e. the shares in the Bank held by the seller will be disposed of, including all assets and liabilities, without any material early disposals of assets or sub-segments at prices below the carrying amount in the case of offers for the entire business having been received. 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 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 of the shipping market that has been assumed in the Bank's corporate planning does not materialise as planned, or if the regulatory treatment of the second loss guarantee as a securitisation position is no longer approved by the banking supervisory authority, 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.

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 period

The General Partner has assessed the impact, or potential impact, of all New Accounting Requirements. In the opinion of the General Partner, other than those listed below, there are no other 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 other mandatory New Accounting Requirements are listed. The Partnership has not early adopted any New Accounting Requirements that are not mandatory.

IAS 7, "Statement of Cash Flows" (amendments) – effective retrospectively for accounting periods commencing on or after 1st January 2017

IAS 7 has been amended to improve disclosure on an entity's liabilities. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. One way to meet this new disclosure requirement is to provide a reconciliation between the opening and closing balances for liabilities arising from financing activities.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2017 TO 30TH JUNE 2017

1. ACCOUNTING POLICIES - (CONTINUED)

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 may be adopted to replace 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.

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 investment 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 Notes 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 Notes 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 investment at fair value through profit or loss whilst measuring the Capital Notes at amortised cost. The Company intends to adopt IFRS 9 no later than the mandatory effective date.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2017 TO 30TH JUNE 2017

1. ACCOUNTING POLICIES - (CONTINUED)

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 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.

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.

The Partnership received no profit participations during the period due to the continuing financial difficulties of HSH Nordbank. Indeed, the Partnership has received no profit participations from 2009 to date. The non-declaration of profit participation is considered by the General Partner to represent a 'triggering event' which is used as the first step under its impairment assessment as at the end of each reporting period, the second step being to consider whether or not a 'loss event' that had an impact on the estimated future cash flows had occurred (i.e. whether or not objective evidence of impairment existed in accordance with IAS 39.59). Such objective 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 events: non-receipt of a declared profit participation on the Silent Contribution; permanent reduction or write down of principal, notional or redemption amounts; notice of default by or bankruptcy of HSH Nordbank.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2017 TO 30TH JUNE 2017

1. ACCOUNTING POLICIES - (CONTINUED)

Impairment - (continued)

Other indications of financial difficulties at HSH Nordbank, such as a credit rating downgrade or a significant and prolonged decrease in the fair value of the Silent Contribution may also be considered by the General Partner. However, 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 participations on the Silent Contribution. However, whilst the non-declaration of profit participations 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 and the right to receive profit participations is contingent upon HSH Nordbank having sufficient distributable profits. In the absence of such, the Partnership is not entitled to receive any interest. Thus, the General Partner does not consider the non-declaration of profit participations 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 2017 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.

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.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2017 TO 30TH JUNE 2017

1. ACCOUNTING POLICIES - (CONTINUED)

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 (2016: 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.

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 13.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2017 TO 30TH JUNE 2017

1. ACCOUNTING POLICIES - (CONTINUED)

Fair value estimation - (continued)

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 2017 (2016: none).

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.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2017 TO 30TH JUNE 2017

1. ACCOUNTING POLICIES - (CONTINUED)

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

	<u>30th Jun 17</u>	<u>31st Dec 16</u>
Silent capital interest in the commercial enterprise of HSH Nordbank		
Carrying amount based on effective interest rate AG8 calculation:		
Opening balance	420,868,162	390,880,792
Effective income adjustment	15,669,307	29,987,370
Closing balance	€ 436,537,469	€ 420,868,162
Fair value adjustment:		
	<u>30th Jun 17</u>	<u>31st Dec 16</u>
Opening balance	(343,368,162)	(240,545,792)
Movement during the period/year	11,680,693	(102,822,370)
Closing balance	(331,687,469)	(343,368,162)
Fair value	€ 104,850,000	€ 77,500,000
Notional amount outstanding at the period end	€ 500,000,000	€ 500,000,000

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2017 TO 30TH JUNE 2017

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

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.

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.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2017 TO 30TH JUNE 2017

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

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 2016: 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 disclosed in note 1.

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

3. TRADE AND OTHER RECEIVABLES

	<u>30th Jun 17</u>	<u>31st Dec 16</u>
Prepayments	-	2,500
Amounts receivable under Compensation Agreement	1,236,283	-
Withholding tax receivable	442,835	-
	<u>€ 1,679,118</u>	<u>€ 2,500</u>

4. CASH AND CASH EQUIVALENTS

	<u>30th Jun 17</u>	<u>31st Dec 16</u>
HSH Nordbank - EUR account	€ 171,397	€ 171,489

5. TRADE AND OTHER PAYABLES

	<u>30th Jun 17</u>	<u>31st Dec 16</u>
Administration fees payable	7,267	12,445
Loan interest payable	40,466	40,374
Support undertaking fees payable	30,333	30,333
Audit fee payable	11,672	23,282
Transaction fee payable	286	294
	<u>€ 90,024</u>	<u>€ 106,728</u>

As explained in note 2, there has been no Profit Participation income receivable during the period ended 30th June 2017 and the year-ended 31st December 2016. 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 2017 and 31st December 2016 in respect of interest payable. Please refer to note 17 for further details.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2017 TO 30TH JUNE 2017

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 further 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

	<u>30th Jun 17</u>	<u>31st Dec 16</u>
Liquidity Facility	€ 1,605,221	€ 1,473,241

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

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2017 TO 30TH JUNE 2017

8. CAPITAL SECURITIES ISSUED	<u>30th Jun 17</u>	<u>31st Dec 16</u>
RESPARC Securities issued		
Opening balance	422,345,955	392,802,121
Effective income adjustment	15,421,524	29,543,834
Closing balance	€ 437,767,479	€ 422,345,955
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 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 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 9. The holders of the RESPARC Securities are therefore also exposed to the risk of default of HSH Nordbank Luxembourg.

As at 30th June 2017 the estimated fair value of the RESPARC Securities was 20.97% (31st December 2016: 15.5%) of the nominal value. Details regarding how the fair value of the RESPARC Securities have been estimated are disclosed in note 13.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2017 TO 30TH JUNE 2017

8. CAPITAL SECURITIES ISSUED - (CONTINUED)

Pursuant to an announcement made on 8th June 2016, 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.

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.

Sanne Fiduciary Services Limited ("SFSL") and Sanne Secretaries Limited ("SSL") provide ongoing 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.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2017 TO 30TH JUNE 2017

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 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, 5, 7 and 8.

Expenses paid on behalf of the General Partner and the Limited Partner and their respective holding entities during the period 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.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2017 TO 30TH JUNE 2017

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 20.97% (31st December 2016: 15.5%) 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 17</u>		<u>31st Dec 16</u>	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Silent Contribution	€ 104,850,000	€ 104,850,000	€ 77,500,000	€ 77,500,000
Financial liabilities:				
RESPARC Securities	€ 437,767,479	€ 104,850,000	€ 422,345,955	€ 77,500,000

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 2017 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).

<u>30th June 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:				
Silent Contribution	€ -	€ 104,850,000	€ -	€ 104,850,000
Financial liabilities:				
RESPARC Securities	€ -	€ 104,850,000	€ -	€ 104,850,000

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2017 TO 30TH JUNE 2017

13. FINANCIAL INSTRUMENTS - (CONTINUED)

Fair value hierarchy - (continued)

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

There were no transfers between Levels during the current period or prior 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.

		<u>30th Jun 17</u>		<u>31st Dec 16</u>	
	Interest charging basis	Effective interest rate %	Carrying value	Effective interest rate %	Carrying value
Financial assets:					
Silent Contribution	Fixed	7.65%	104,850,000	7.65%	77,500,000
Cash and cash equivalents	Floating	nil	171,397	nil	171,489
			€ 105,021,397		€ 77,671,489
Financial liabilities:					
Loans payable	Floating	12M Euribor + 0.3%	1,605,221	12M Euribor + 0.3%	1,473,241
RESPARC Securities	Fixed	7.50%	437,767,479	7.50%	422,345,955
			€ 439,372,700		€ 423,819,196

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2017 TO 30TH JUNE 2017

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.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2017 TO 30TH JUNE 2017

13. FINANCIAL INSTRUMENTS - (CONTINUED)

Credit risk - (continued)

As at 30th June 2017 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 2016: Ca).

HSH Nordbank AG has a long term credit rating of Baa3 from Moody's (31st December 2016: 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.

	<u>30th Jun 17</u>		<u>31st Dec 16</u>	
	Financial Assets	Financial Liabilities	Financial Assets	Financial Liabilities
Less than one year	1,850,515	1,695,245	173,989	1,579,969
In more than five years	500,000,000	500,000,000	500,000,000	500,000,000
	<u>€ 501,850,515</u>	<u>€ 501,695,245</u>	<u>€ 500,173,989</u>	<u>€ 501,579,969</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.

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 period.

The Partnership is not subject to externally imposed capital requirements.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2017 TO 30TH JUNE 2017

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 period (2016: €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.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2017 TO 30TH JUNE 2017

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 replenishment of the second loss guarantee from € 7 billion to € 10 billion by the federal state owners in June 2013 against the backdrop of changed underlying conditions and future regulatory requirements was finally approved by the EU Commission on 2 May 2016. This guarantee measure was provisionally approved by the EU Commission in the 2013 financial year and has strengthened the Bank's CET1 capital ratio since then. At the same time, the EU Commission had instituted state aid proceedings to investigate whether the replenishment of the guarantee is consistent with the state aid rules. These state aid proceedings were concluded by the decision of the EU Commission.

The EU decision is based on a list of conditions and commitments, under which the Federal Republic of Germany as representative of HSH Nordbank's federal state owners and the EU Commission agreed measures to provide legacy asset relief to the Bank. These measures are generally in line with the informal agreement already announced in the 2015 financial year. These include in particular the reduction in guarantee fees, formation of a holding structure and sale of non-performing loans in an initial amount of € 5 billion to the federal state owners and in the amount of up to € 3.2 billion in the market as well as a one-off payment of € 210 million from HSH Nordbank to the holding company in connection with the premium obligations taken over by the holding and the provision of liquidity in the amount of € 50 million to the holding company to ensure its operations.

Furthermore, it is intended to sell HSH Nordbank by 28 February 2018. In this regard, the list of conditions and commitments provide for the option of selling business divisions or parts thereof with the consent of the federal state owners. Consequently, a sale of HSH Nordbank as a whole or in parts is possible. The 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 Commission where there are delays in the technical implementation of the model for reasons outside the control of the federal states.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2017 TO 30TH JUNE 2017

17. CURRENT MARKET CONDITIONS - (CONTINUED)

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

The planned structural measures and resulting expected effect on the net assets, financial position and earnings situation are taken into account in the Bank's new plan for the coming years. Key structural measures were implemented in line with the plan in the previous year and first half of 2017, such as the formation of the holding structure to relieve the operating HSH Nordbank from guarantee obligations, sale of non-performing shipping loans of € 5 billion as at 30 June 2016 to HSH Portfolio Management AöR (federal state owners), sale of a portion of the market portfolio in January 2017 and further sales in the market over the further course of the year.

Following the relief recognised in the 2015 annual and Group financial statements, a large proportion of the long-term structural improvements for the Bank's financial and risk situation has been achieved, primarily due to the significant reduction in the base premium and noticeable improvement in the NPE ratio. This will improve the conditions for a sustainable long-term business model for the Bank. It is expected that the reduction of the currently significant level of impaired legacy assets covered by the guarantee facility provided by the federal states as the reference portfolio will be accelerated. Nevertheless, the targeted improvements are restricted given the complex settlement conditions, particularly with regard to the options for winding down legacy assets based on purely economic criteria as part of an active portfolio management and aimed at counteracting the build-up of a high NPE volume.

Up to 94.9 % of the shares held directly by HSH Beteiligungs Management GmbH ("HoldCo") are to be sold as part of the intended sale of the overall Bank. The federal states of Hamburg and Schleswig-Holstein and (to a much lesser extent) other (indirect) shareholders of HSH Nordbank AG stand behind the HoldCo. The acquisition of the remaining 5.1 % of the shares held by the fund managed by J.C. Flowers & Co. LLC is also possible under certain conditions. Under the EU decision the federal states are entitled to retain their investment in the holding company up to a maximum of 25 % of the shares in the operating company for a period of up to four years following completion of the sale.

The owners are responsible for the sale of the shares, HSH Nordbank's Management Board supports the sale accordingly.

From the shareholders' standpoint, the sale of HSH Nordbank as a whole, i.e. the sale of all shares held by the seller in a share deal, is the objective of the sale process. Preference is to be given in assessing the bids of those bidders whose bid is based on the acquisition of the Bank as a whole at a positive price. In order to ensure the maximum degree of flexibility, the federal state owners have also allowed the option of transaction structures that differ from the preferred sale of the Bank as a whole in the sale announcement as a precaution. Accordingly, the list of conditions and commitments also provides for the possibility of the sale of divisions or parts thereof with the consent of the federal state owners. In this way, the maximum interest of potential investors is sounded out and it is ensured that all available solution options are considered. Against this backdrop and as a highly precautionary measure, alternative privatisation options are also being discussed in addition to the preferred sale of the Bank as a whole. The sale of a bank structurally relieved of legacy assets is therefore being discussed in addition to the preferred sale of the Bank as a whole to one or several investors (bidder consortium). In this case, the scope of the risk transfer offered by potential investors would be a key assessment criterion for the sellers. Any potential downsizing of legacy assets as part of the sale of the bank as a whole does not represent an isolated portfolio transaction of the Bank, but could form part of the bidder's concept and therefore the sale process.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2017 TO 30TH JUNE 2017

17. CURRENT MARKET CONDITIONS - (CONTINUED)

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

The Management Board will only agree to an alternative transaction structure if it is ensured that the Bank's continued existence remains guaranteed by the sale. In the event of such a scenario, this means that a sale of individual portfolios before or during the privatisation would only be executed if it is ensured that the remaining bank is regarded as being in an improved economic condition better after such a sale.

In their announcement of 2 July 2017 with respect to the submission of expanded indicative bids by 30 June 2017, the federal state owners stated that bids expected by the federal states had been submitted on time and, after an initial review, form a good basis for successfully continuing the sale process.

Based on the available information the Bank remains of the opinion that a sale as a whole in accordance with its plans will take place. Following the successful completion of the sales process resulting in an offer that does not require state aid and an offer price that is positive (while retaining the guarantee), the intended acquisition and related corporate structure will be subject to a viability assessment by the EU Commission prior to implementation and is subject to approval by the EU Commission. Should the divestment procedure not lead to offers not requiring state aid (while maintaining the guarantee) with a positive price being offered before the expiry of the deadline, or should the EU Commission come to the conclusion in the course of its viability assessment 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 according to the list of conditions and commitments and manage its assets as far as legally permissible with the aim of a privately managed orderly winding down. Under the list of conditions and commitments, the recapitalisation of existing restructured loans, certain transactions entered into for liquidity management purposes, prolongations at the same terms or to avoid losses, as well as derivative transactions entered into to manage the Bank's overall market risk positions are still permitted in this connection.

Regarding the prohibition of dividends and distributions, the EU decision stipulates that the operating company may not make any payments during the divestment period on profit-related equity instruments (such as hybrid financial instruments and profit participation certificates), unless these are contractually or legally owed. These instruments are also required to participate in losses, to the extent that the balance sheet of the operating company were to disclose a loss excluding the release of reserves. Furthermore, the operating company will not pay any dividends until the sale is completed, with the exception of dividend payments in the amount legally permitted from the operating company to the holding company to be formed.

Based on the information available as at the reporting date, the Bank assumes that, on the successful conclusion of the privatisation process, it will again be able to pay dividends and make distributions on hybrid capital for the 2019 financial year at the earliest in 2020.

According to the list of conditions and commitments, provisions regarding the reduction in total assets and regarding the business model are also to be complied with during the restructuring phase, which ends with the sale of the operating company, and the restriction on external growth through the acquisition of control in other companies is also to be observed.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2017 TO 30TH JUNE 2017

17. CURRENT MARKET CONDITIONS - (CONTINUED)

The privatisation process is proceeding at a rapid pace

Under the formal decision reached in the EU state aid proceedings, HSH Nordbank is to be sold by 28 February 2018. Against the backdrop of this privatisation, the Bank has been systematically implementing structural, organisational and personnel measures for about a year. All these measures contribute to an improvement in the Bank's financial and risk situation and should form the basis for a sustainable structure and viable business model to be characterised by increasing capital ratios, good liquidity ratios and increased efficiency.

The official part of the privatisation of HSH Nordbank started with the announcement of the sale by the federal state owners, which was published on 23 January 2017. Since then the privatisation process has been proceeding at a rapid pace in line with the plan. After an initial data room phase, interested investors submitted expanded indicative bids on 30 June 2017, thereby reaching a decisive milestone in the privatisation process. In this regard, the federal state owners stated in their announcement of 2 July 2017 that bids expected by the federal states had been submitted on time and that, after an initial review, these bids form a good basis for a successful continuation of the sale process. The bidders who have successfully reached the next stage of the privatisation have been provided with more detailed information in the data room. Binding bids are to be submitted in the autumn of 2017, on the basis of which the final agreement negotiations are to be conducted.

The present exchange of information between potential investors and the federal state owners will be further intensified over the coming weeks. Of particular importance in this regard are key issues such as significant aspects of the capital structure, the guarantee and related legacy assets on the one hand and a sustainable outlook for the Core Bank on the other hand, which will need to be discussed between potential investors and the federal state owners.

A large number of possible privatisation solutions, which could include structured sub-bank solutions (where a sale of the Bank as a whole cannot be achieved) in addition to the envisaged sale of the Bank as a whole, will therefore have to be assessed in the discussions between the federal state owners and interested investors to achieve a successful privatisation from the viewpoint of all stakeholders. This is of particular relevance not least in view of the requirement that the viability review of the new corporate structure to be carried out by the EU Commission at the end of the privatisation process is positive.

18. COMPENSATION AGREEMENT

As no income is being received from the Participation since 2009, the Partnership relies on the Liquidity Facility to pay for ongoing operational costs and expenses. However, the Partnership has no means of settling this liability until income is received from the Participation which is not expected to resume until 2020 (see note 2). To rectify this situation, the Partnership entered into a Compensation Agreement (the "Agreement") with HSH Nordbank AG and the Limited Partner wherein the Partnership will receive an initial non-refundable compensation payment in an amount corresponding to the outstanding balance under the Liquidity Facility as at 30th June 2017. Subsequently, the Partnership will receive non-refundable compensation payments on a quarterly basis necessary to cover costs and expenses payable under the Support Undertaking, any interest payments accrued under the Liquidity Facility and other operational costs and expenses incurred by the Partnership and the Limited Partner in the ordinary course of business as approved by HSH Nordbank AG.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2017 TO 30TH JUNE 2017

18. COMPENSATION AGREEMENT - (CONTINUED)

In accordance with the Agreement, the Partnership recognised an income in the amount of €1,679,162 consisting of €1,236,283 receivable from HSH Nordbank AG, €442,835 receivable equivalent to 99.99% of the withholding tax reclaimable by the Limited Partner and a small amount of non recoverable withholding tax of €44 equivalent to 0.01% of the withholding tax. The settlement of €1,236,283 will be made some time in August 2017 whereby the loan payable under the Liquidity Facility will be reduced by the same amount. The withholding tax receivable will be received by the partnership from the limited partner upon receipt from the German tax authorities.

19. 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.