RESPARCS FUNDING II LIMITED PARTNERSHIP

INTERIM REPORT AND UNAUDITED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30TH JUNE 2018

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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 period ended 30th June 2018.

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 AG" 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 AG in the form of a "Stille Gesellschaft" under German law in the amount of €500,000,000. The offering circular dated 28th May 2003 stated that an investment in the RESPARC Securities issued by the Partnership is suitable only for financially 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 2018 the fair value of the RESPARC Securities was 39.696% (31st December 2017: 43.063%) 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 €47,903 (2017: profit of €1,561,250).

DIRECTORS OF THE GENERAL PARTNER

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

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

The Directors of the General Partner did not hold any interest in the Partnership during the period, or subsequently.

REGISTERED OFFICE

The registered office is IFC 5, St. Helier, Jersey, Channel Islands, JE1 1ST.

SECRETARY OF THE GENERAL PARTNER

Sanne Secretaries Limited

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;
* assess the Limited Partnership's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
* use the going concern basis of accounting unless the General Partner either intends to liquidate the Limited Partnership or to cease operations, or has no realistic alternative but to do so.

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 and enable them to ensure that the financial statements comply with the Limited Partnership Agreement and the International Financial Reporting Standards. 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 2018 give a true and fair view of the assets, liabilities, financial position and deficit 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.

John Rennocks

Signed on behalf of
European Capital Investment Opportunities Limited
General Partner
Date: 10th September 2018

STATEMENT OF FINANCIAL POSITION

AS AT 30TH JUNE 2018

	Notes	30th Jun 18	31st Dec 17 (restated)	1st Jan 17 (restated)
ASSETS				
NON-CURRENT ASSETS				
Financial asset at fair value through profit or loss	2	198,480,000	215,315,000	77,500,000
CURRENT ASSETS				
Trade and other receivables	3	554,055	479,726	2,500
Cash and cash equivalents	4	171,211	171,304	171,489
		725,266	651,030	173,989
TOTAL ASSETS		€ 199,205,266	€ 215,966,030	€ 77,673,989
EQUITY AND LIABILITIES				
CAPITAL AND RESERVES				
Capital account	6	1,000	1,000	1,000
Capital contribution	6	1,501,807	1,501,807	1,501,807
Retained deficit		(1,346,325)	(1,394,228)	(2,908,787)
TOTAL PARTNERS' DEFICIT		156,482	108,579	(1,405,980)
NON-CURRENT LIABILITIES				
Capital Securities	8	198,480,000	215,315,000	77,500,000
CURRENT LIABILITIES				
Loans payable	7	481,368	407,065	1,473,241
Trade and other payables	5	87,416	135,386	106,728
		568,784	542,451	1,579,969
TOTAL LIABILITIES		199,048,784	215,857,451	79,079,969
TOTAL EQUITY AND LIABILITIES		€ 199,205,266	€ 215,966,030	€ 77,673,989

The financial statements on pages 4 to 28 were approved and authorised for issue by the Board of the General Partner on the 10th day of September 2018 and were signed on its behalf by:

Director: John Pendergast

(The notes on pages 8 to 28 form part of these financial statements)

STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD 1ST JANUARY 2018 TO 30TH JUNE 2018

	Notes	1st Jan 18 to 30th Jun 18	1st Jan 17 to 30th Jun 17 (restated)
FINANCE INCOME			
Finance income:			
Revaluation of financial asset at fair value through profit or loss	2	(16,835,000)	27,350,000
Revaluation of Capital Securities	8	16,835,000	(27,350,000)
Income from HSH Nordbank AG under Compensation Agreement	18	159,599	1,679,162
Unrealised gain on exchange		-	773
TOTAL INCOME		159,599	1,679,935
EXPENDITURE			
Support undertaking fees		60,667	60,667
Legal and professional fees		6,425	2,785
Administration fees		18,632	26,626
Management fees		2,651	2,067
Audit fees		8,897	9,589
ISE fees		228	235
Bank charges		195	92
Non-recoverable withholding tax	18	4	-
Transaction fee		-	44
Expenses paid on behalf of General Partner and Trust		13,119	16,488
German fiscal fees payable		263	-
Unrealised loss on exchange		562	-
		111,643	118,593
FINANCE EXPENDITURE			
Finance costs:			
Loan interest		53	92
TOTAL EXPENDITURE		111,696	118,685
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		€ 47,903	€ 1,561,250

Other comprehensive income

There were no items of other comprehensive income.

(The notes on pages 8 to 28 form part of these financial statements)

STATEMENT OF CHANGES IN PARTNERS' EQUITY

FOR THE PERIOD 1ST JANUARY 2018 TO 30TH JUNE 2018

	Capital account	Capital contribution	Retained deficit	Revaluation reserve	Total
	€	€	€	€	€
Balance at 1st January 2018	1,000	1,501,807	(1,394,228)	-	108,579
Comprehensive income:					
- Profit for the period	-	-	47,903	-	47,903
Balance at 30th June 2018	1,000	1,501,807	(1,346,325)	-	156,482
Balance at 1st January 2017 - previously stated	1,000	1,501,807	(4,386,580)	(343,368,162)	(346,251,935)
Restatement - effect of IFRS 9 - Revaluation reserve	-	-	(343,368,162)	343,368,162	-
Restatement - effect of IFRS 9 - Capital Securities	-	-	344,845,955	-	344,845,955
Balance at 1st January 2017 - restated	1,000	1,501,807	(2,908,787)	-	(1,405,980)
Comprehensive income:					
- Profit for the period	-	-	1,561,250	-	1,561,250
Balance at 30th June 2017	1,000	1,501,807	(1,347,537)	-	155,270

(The notes on pages 8 to 28 form part of these financial statements)

STATEMENT OF CASH FLOWS

FOR THE PERIOD 1ST JANUARY 2018 TO 30TH JUNE 2018

	Notes	1st Jan 18 to 30th Jun 18	1st Jan 17 to 30th Jun 17 (restated)
Cash flows from operating activities			
Profit for the period		47,903	1,809,033
Decrease in trade and other payables	5	(47,970)	(16,704)
Increase in trade and other receivables	3	(74,329)	(1,676,618)
Revaluation of financial asset at fair value through profit or loss	2	16,835,000	(27,350,000)
Revaluation of Capital Securities	8	(16,835,000)	27,350,000
Net cash used in operating activities		(74,396)	115,711
Cash flows from financing activities			
Amount drawn under liquidity facility		74,303	131,980
Net cash generated from financing activities		74,303	131,980
Net decrease in cash and cash equivalents		(93)	247,691
Cash and cash equivalents at the beginning of the period		171,304	171,489
Cash and cash equivalents at the end of the period	4	€ 171,211	€ 419,180

Reconciliation of movement in net debt

	Liabilities	Cash	Net Debt
Opening balance as at 1st January 2018	(215,764,552)	171,304	(215,593,248)
Cash movement during the period	(74,356)	(93)	(74,449)
Non-cash movement during the period	16,835,000	-	16,835,000
Closing balance as at 30th June 2018	€ (199,003,908)	€ 171,211	€ (198,832,697)

(The notes on pages 8 to 28 form part of these financial statements)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD 1ST JANUARY 2018 TO 30TH JUNE 2018

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 of Resparcs Funding II Limited Partnership (the "Partnership" or "Limited Partnership"), 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 IFRS 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 the financial asset at fair value through profit or loss and Capital Securities issued which are stated at fair value.

Going concern

The Partnership relies upon HSH Nordbank AG (the "Bank") to fund its ongoing expenses under the terms of the Support Undertaking. Accounting and measurement are based on the assumption that the Partnership is a going concern, which in turn, is based upon the assumption that the Bank is a going concern. With regard to the going concern assumption, we refer to the comments in the interim Group management report in the section entitled "Forecast, opportunities and risks report". This section shows that the going concern assumption for accounting and measurement purposes, as well as the continued survival of HSH Nordbank AG and major group companies is based, in particular, on the share purchase agreement concluded on 28 February 2018, in which with the HSH Beteiligungsmanagement GmbH sold 94.9 % of the shares in HSH Nordbank AG to various funds of Cerberus European Investments LLC, J.C. Flowers & Co. LLC, Golden Tree Asset Management L.P., Centaurus Capital LP and BAWAG P.S.K. AG (hereinafter referred to as the "bidders") being closed and implemented.

After the competition authorities in Germany and Austria have granted their approval, the approval of the federal state parliaments in Hamburg and Schleswig-Holstein has been obtained and HSH Finanzfonds AöR has submitted a final settlement report on the full settlement of the second loss guarantee granted by HSH Finanzfonds AöR, the closing of the share purchase agreement requires that:

– the competent banking supervisory authority (European Central Bank (ECB)), German Federal Financial Supervisory Authority (BaFin) and Commission de Surveillance du Secteur Financier (CSSF Luxembourg) each grants the necessary approvals;

– the European Commission approves the proposed new corporate structure after performing a viability review;

– the extension of HSH Nordbank AG's membership of the guarantee scheme of the German Savings Banks Finance Group (SFG) beyond the two years stipulated in the articles of association, namely for an additional third year following the closing of the share purchase agreement, is confirmed; and

– the bidders pay the portion of the purchase price attributable to them on the closing date.

If any of the conditions set out above for the closing of the share purchase agreement are not met, and if no agreement can be reached between the parties involved in each case, in particular if the EU Commission reaches the conclusion, in the course of its viability review, that the planned new corporate structure will not lead to a business model that is profitable in the long term, then the Bank 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, then this could trigger outflows of short-term funds and fundamentally restrict HSH Nordbank's funding options.

1. ACCOUNTING POLICIES - (CONTINUED)

Going concern - (continued)

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. It is further required that the acceptance by market participants and other relevant stakeholders necessary for the successful implementation of HSH Nordbank AG's future business model 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

European Capital Investment Opportunities Limited (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.

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

The Partnership has adopted IFRS 9 in its financial statements from 1 January 2018. Restatement of comparative figures is not required under IFRS 9 however restated figures have been presented within these financial statements. The key changes resulting from the implementation of IFRS 9 are set out below and overleaf.

Classification and measurement

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.

Upon implementation of IFRS 9, the Partnership's principal financial asset has been reclassified from available-for-sale ("AFS") financial asset to financial asset at fair value through profit or loss ("financial asset at FVTPL"). The Capital Securities issued by the Partnership have been reclassified from financial liabilities at amortised cost to financial liabilities at fair value through profit or loss, being designated as such in order to eliminate the accounting mismatch that otherwise would have occurred from differences in measurement bases between the financial assets and the financial liabilities.

The following table summarises the effect of the application of IFRS 9 on the relevant balances presented in the Partnership's Statement of Financial Position.

	Balances as previously reported	Effect of application of IFRS 9	Balances after application of IFRS 9
AFS financial asset at 1st January 2017	77,500,000	(77,500,000)	-

1. ACCOUNTING POLICIES - (CONTINUED)

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

	Balances as previously reported	Effect of application of IFRS 9	Balances after application of IFRS 9
AFS financial asset at 30th June 2017	104,850,000	(104,850,000)	-
AFS financial asset at 31st December 2017	215,315,000	(215,315,000)	-
Financial asset at FVTPL at 1st January 2017	-	77,500,000	77,500,000
Financial asset at FVTPL at 30th June 2017	-	104,850,000	104,850,000
Financial asset at FVTPL at 31st December 2017	-	215,315,000	215,315,000
Capital securities at amortised cost at 1st January 2017	(422,345,955)	422,345,955	-
Capital securities at amortised cost at 30th June 2017	(437,767,479)	437,767,479	-
Capital securities at amortised cost at 31st December 2017	(341,323,164)	341,323,164	-
Capital securities at FVTPL at 1st January 2017	-	77,500,000	77,500,000
Capital securities at FVTPL at 30th June 2017	-	104,850,000	104,850,000
Capital securities at FVTPL at 31st December 2017	-	215,315,000	215,315,000
Fair Value Reserve at 1st January 2017	(343,368,162)	343,368,162	-
Fair Value Reserve at 30th June 2017	(331,687,469)	331,687,469	-
Fair Value Reserve at 31st December 2017	(123,421,483)	123,421,483	-

Restatement

The comparative balances have been restated due to the adoption of IFRS 9 on 1st January 2018 as per the above. The restated numbers shown reflect the retrospective application of IFRS 9.

Non-mandatory New Accounting Requirements not yet adopted

The Directors of the General Partner have assessed the impact, or potential impact, of all New Accounting Requirements. In the opinion of the Directors, all 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. The Partnership has not early adopted any New Accounting Requirements that are not mandatory.

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; and, (ii) recognition and measurement of impairment: further details are disclosed in the "Impairment" accounting policy.

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

Financial asset at fair value through profit or loss

In accordance with IFRS 9, the Partnership classifies the investment held as a financial asset measured at fair value through profit or loss. Upon initial recognition, financial assets are measured at fair value excluding transaction costs that are directly attributable to the acquisition of such assets. Subsequently, they are measured at fair value with changes thereof being recognised directly in the Statement of Comprehensive Income. Financial assets at FVTPL are derecognised when the rights to receive cash flows have expired or the Partnership has transferred substantially all risks and rewards of ownership.

Impairment

The adoption of IFRS 9 on 1st January 2018 has replaced the current model used to calculate loan loss provisions/impairments under IAS 39, which was based primarily on incurred losses, with a model based on the expected credit losses. The scope of the new model includes all financial assets that are recognised at amortised cost.

For all financial instruments that fall under the scope of the loan loss provisions model under IFRS 9.5.5.1, the basic principle involves setting up loan loss provisions depending on the change in the credit quality of the financial instrument concerned. This model only applies to financial instruments which are not impaired at the time of initial recognition. At the time of initial recognition, these financial instruments are assigned to level 1, which is explained below. Depending on the extent of the change in credit quality, the financial instrument is assigned to one of the following three levels as part of the subsequent measurement process:
a. Level 1: No significant increase in the loan default risk, 12-month expected loss – For financial instruments whose loan default risk is not significantly increased, the impairment is recognised in the amount of the anticipated 12-month credit losses.
b. Level 2: Significant increase in the loan default risk, lifetime expected loss – For financial instruments whose loan default risk has increased significantly since the time of initial recognition, expected credit losses are recognised over the entire remaining term of the financial instrument.
c. Level 3: Financial assets that are credit-impaired, lifetime expected loss – Financial instruments for which one or more events have occurred after the time of initial recognition that have an adverse impact on the expected future cash flows are assigned to level 3. The expected credit losses over the entire remaining term to maturity of the financial instrument are recognised for these financial instruments as well.

The Partnership calculates expected credit losses at levels 1 and 2 based on the following credit risk parameters: Probability of default (PD); Loss given default (LGD); and, Exposure at default (EAD).

With regards to the receivables under the Compensation Agreement the Partnership has entered into with the Bank and the cash held at the Bank, the external rating of the Bank is mapped onto the internal credit risk models of HSH Nordbank which, where necessary, are adjusted for the purposes of IFRS 9. An analogous procedure is also applied to the withholding tax receivable. The rating models used by the Bank have been developed based on the definition of "default" set out in Article 178 of the EU Capital Requirements Regulation and are validated in this respect on a regular basis.

Any necessary adjustments/expansions of the existing models relate primarily to the use of methods for multi-annual estimates. Within this context, the Partnership uses PD profiles based on migration matrices for its multi-annual estimates. These reflect the observed rating migrations from debtors within a year and are calculated based on an extensive historical observation period.

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

Impairment - (continued)

The forward projection of the LGD over the multi-annual period is based primarily on the expected collateralisation ratio of the financial instrument, which comprises the expected collateral value and the expected amount of the receivable. EAD modelling for the loan agreement is used to project the gross carrying amount forward over the multi-annual period.

In addition, the credit risk parameters are expanded to include additional macroeconomic information relating to the future, if necessary. The lifetime expected loss is calculated as the sum product of the period-specific credit risk parameters determined during the term. Discounting to the balance sheet date is based on the effective interest rate in each case. The loan loss provisions are generally calculated at the level of the individual financial instrument.

In subsequent periods, loan loss provisions are adjusted to reflect changes in the estimates for the expected cash flows and changes in the gross carrying amount which may arise from interest claims. The collection of the interest for credit-impaired instruments, which is recognised through profit or loss, is based on the net carrying amount, as under IAS 39.

The estimated expected credit losses and resulting loss provisions/impairments arising from the Partnership's impairment review process were considered to be immaterial. Consequently, no impairments have been recognised on the receivables under the Compensation Agreement, nor the cash held at the Bank, nor the withholding tax receivable.

Capital Securities issued

The Capital Securities are designated at FVTPL, as permitted under IFRS 9, in order to eliminate the accounting mismatch that would otherwise occur in the Partnership's Statement of Financial Position and Statement of Comprehensive Income if the Silent Contribution was to be measured at fair value through profit or loss whilst the Capital Securities would otherwise be measured at amortised cost. Consequently the Capital Securities are initially and subsequently measured at fair value through profit or loss. Financial liabilities at fair value through profit or loss are recognised on the trade date and derecognised when they are extinguished (i.e. when the obligation is discharged, cancelled or expires).

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

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 judgement 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 Capital Securities are disclosed in note 13.

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

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 profit or loss in the statement of comprehensive income.

Employees

The Partnership had no employees during the period ended 30th June 2018 (year ended 31st December 2017: 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 Capital Securities issued 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. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

Silent capital interest in the commercial enterprise of HSH Nordbank AG

	30th Jun 18	31st Dec 17 (restated)
Opening balance	215,315,000	77,500,000
Movement during the period	(16,835,000)	137,815,000
Closing balance	€ 198,480,000	€ 215,315,000
Notional amount outstanding at the period end	€ 500,000,000	€ 500,000,000

2. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS - (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 AG.

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 AG's annual financial statements have been adopted for the fiscal year of HSH Nordbank AG 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 AG 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 profit or loss in the statement of comprehensive income.

At the outset of the transaction it was agreed between the Partnership and HSH Nordbank AG 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 AG 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 AG. HSH Nordbank AG 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 AG's solvency ratio exceeds 9% on a sustainable, unconsolidated or consolidated basis.

HSH Nordbank AG is not currently permitted to make any payouts on profit participation capital and silent partnerships due to the Bank's net loss or balance sheet loss.

2. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS - (CONTINUED)

On 8th June 2016, a Press Release was issued by HSH Nordbank AG 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. On 28th February 2018 a further announcement was made stating that due to the agreed privatization of HSH Nordbank AG and the upcoming transformation phase, HSH Nordbank AG will not be able to make distributions on the issued hybrid capital instruments in 2020 for the fiscal year 2019 as originally expected. Against this back-ground HSH Nordbank AG now expects that coupon payments on silent participations and profit-participation capital will only take place in 2024 (31st December 2017: 2024) for the fiscal year 2023, 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

		30th Jun 18		31st Dec 17
Amounts receivable under Compensation Agreement		47,573		15,326
Withholding tax receivable		506,482		464,400
	€	554,055	€	479,726

4. CASH AND CASH EQUIVALENTS

		30th Jun 18		31st Dec 17
HSH Nordbank AG - EUR accounts	€	171,211	€	171,304

5. TRADE AND OTHER PAYABLES

		30th Jun 18		31st Dec 17
Administration fees payable		9,887		39,247
Loan interest payable		42,540		42,487
Support undertaking fees payable		-		30,333
Audit fee payable		34,706		23,037
Transaction fee payable		283		282
	€	87,416	€	135,386

5. TRADE AND OTHER PAYABLES - (CONTINUED)

As explained in note 2, there has been no Profit Participation income receivable during the period ended 30th June 2018 and the year ended 31st December 2017. Since the coupon payments on the RESPARC Capital Securities issued are contingent on the receipt of Profit Participation income, no accrual has been made as at 30th June 2018 and the year ended 31st December 2017 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 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

	30th Jun 18	31st Dec 17
Liquidity Facility	€ 481,368	€ 407,065

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

	30th Jun 18	31st Dec 17 (restated)
RESPARC Securities issued		
Opening balance	215,315,000	77,500,000
Fair value movement during the period	(16,835,000)	137,815,000
Closing balance	€ 198,480,000	€ 215,315,000
Notional amount outstanding at the period end	€ 500,000,000	€ 500,000,000
Estimated fair value in the absence of credit impairment	€ 649,397,713	€ 649,540,530
Estimated cumulative fair value movement resulting from credit deterioration	€ (450,917,713)	€ (434,225,530)
Estimated fair value movement during the period resulting from credit deterioration	€ (16,692,183)	

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 "Capital Securities"), the proceeds from which have been used to acquire a silent capital interest (the "Silent Contribution") in the commercial enterprise of HSH Nordbank AG in the form of a "Stille Gesellschaft" under German law in the amount of €500,000,000. The nominal amount of each Capital Security is €1,000. The Capital Securities issued are listed on the Frankfurt Stock Exchange and the Official Segment of the stock market of Euronext Amsterdam N.V.

The RESPARC Capital 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 AG under the Participation Agreement and advances from HSH Nordbank Luxembourg under the Loan Agreement.

The Capital Securities issued are perpetual securities, having no mandatory maturity date. However, the Capital Securities issued may be redeemed, at the option of HSH Nordbank AG, 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 AG under the Participation Agreement. The Capital Securities issued 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 Capital Securities issued 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 of HSH Nordbank AG. Coupon payments on the Capital Securities issued are contingent on the receipt of Profit Participation income. HSH Nordbank AG is not currently permitted to make any payouts on profit participation capital and silent partnerships due to the Bank's net loss or balance sheet loss.

8. CAPITAL SECURITIES - (CONTINUED)

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 Capital Securities issued. The RESPARC Capital Securities holders therefore bear the ultimate risk of the ability of HSH Nordbank AG to make payments on the Silent Participation.

The liabilities of the Partnership under the RESPARC Capital Securities issued are supported by HSH Nordbank Luxembourg under the Support Undertaking, as described in note 9. The holders of the RESPARC Capital Securities issued are therefore also exposed to the risk of default of HSH Nordbank Luxembourg.

As at 30th June 2018 the estimated fair value of the RESPARC Capital Securities issued was 39.696% (31st December 2017: 43.063%) of the nominal value. Details regarding how the fair value of the RESPARC Capital Securities issued have been estimated are disclosed in note 13.

Pursuant to an announcement made on 28th February 2018 as per note 2, HSH Nordbank AG expects that coupon payments on silent participations and profit-participation capital will only take place in 2024 for the fiscal year 2023, 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 AG 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. The Directors of the General Partner do not have any financial interest in the Partnership.

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.

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 5 to the financial statements. In the General Partner's opinion, there are no material related party transactions that require disclosure, other than those disclosed in notes 2, 3, 4, 5, 6, 7, 8 and 9.

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 AG. The Partnership has issued the RESPARC Capital Securities and the proceeds from which have been used to acquire the Silent Contribution in the commercial enterprise of HSH Nordbank AG. 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 Capital Securities issued, 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 financial asset at fair value through profit or loss.

The fair value of the RESPARC Capital Securities issued has been obtained from quoted market prices. The quoted market price of 39.696% (31st December 2017: 43.063%) 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.

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2018 TO 30TH JUNE 2018

13. FINANCIAL INSTRUMENTS - (CONTINUED)

Determination of fair value - (continued)

The terms of the Silent Contribution are identical in all material respects to those of the RESPARC Capital Securities, except for the fact that the RESPARC Capital Securities bear interest at a fixed rate of 7.5% per annum, whilst the Silent Contribution bears interest at a fixed rate of 7.65% per annum. Accordingly, in the General Partner's opinion, as no interest is currently receivable or payable on these financial instruments, the fair value of the Silent Contribution is estimated to be approximately equal and opposite to the fair value of the RESPARC Capital Securities. Therefore the quoted market price of the RESPARC Capital 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.

	30th Jun 18		31st Dec 17 restated	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets:				
Financial asset at FVTPL	€ 198,480,000	€ 198,480,000	€ 215,315,000	€ 215,315,000
Financial liabilities:				
RESPARC Capital Securities	€ 198,480,000	€ 198,480,000	€ 215,315,000	€ 215,315,000

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 Capital Securities issued as at 30th June 2018 and considers that the market price reflects current adverse conditions affecting the financial position of HSH Nordbank AG to which the holders of the RESPARC Capital Securities issued are exposed.

The effects of market conditions and the future expected profitability of HSH Nordbank AG on the fair value of the RESPARC Capital 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).

30th June 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets:				
Financial asset at FVTPL	€ -	€ 198,480,000	€ -	€ 198,480,000
Financial liabilities:				
RESPARC Capital Securities	€ -	€ 198,480,000	€ -	€ 198,480,000

13. FINANCIAL INSTRUMENTS - (CONTINUED)

Fair value hierarchy - (continued)
Restated

31st December 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets:				
Financial asset at FVTPL	€ -	€ 215,315,000	€ -	€ 215,315,000
Financial liabilities:				
RESPARC Capital Securities	€ -	€ 215,315,000	€ -	€ 215,315,000

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 Capital Securities. The coupons payable on the RESPARC Capital Securities issued 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 Capital 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 financial assets at FVTPL and the interest on the RESPARC Capital Securities have been suspended as explained in notes 2 and 8.

		30th Jun 18		**31st Dec 17 restated**	
	Interest charging basis	Effective interest rate %	Carrying value	Effective interest rate %	Carrying value
Financial assets:					
Financial assets at FVTPL	Fixed	7.65%	198,480,000	7.65%	215,315,000
Cash and cash equivalents	Floating	nil	171,211	nil	171,304
			€ 198,651,211		€ 215,486,304
Financial liabilities:					
Loans payable	Floating	12M Euribor + 0.3%	481,368	12M Euribor + 0.3%	407,065
RESPARC Capital Securities	Fixed	7.50%	198,480,000	7.50%	215,315,000
			€ 198,961,368		€ 215,722,065

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 Capital Securities.

Sensitivity analysis

As disclosed above, in the General Partner's opinion, there is no material difference between the fair value of the RESPARC Capital Securities and the fair value of the Silent Contribution. From the perspective of the Partnership, any change in the fair value of the RESPARC Capital 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 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. Given that the terms and conditions of the RESPARC Capital Securities are matched to those of the Silent Contribution except for the 0.15% margin difference, there is no net economic exposure of the Partnership to the total comprehensive income or loss resulting from any movement caused by market price and/or interest rate risk. 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 AG 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 Capital Securities issued by the Partnership are limited recourse in commercial effect, 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 itself has no material net credit risk and all credit risk is ultimately borne by the holders of the RESPARC Capital Securities.

On 25th August 2011, HSH Nordbank AG issued a Press Release stating that HSH Nordbank AG would not be servicing its Profit Participation certificates for the fiscal year 2011. On 6th February 2013, the Partnership was informed that HSH Nordbank AG would not be servicing its Profit Participation certificates until 2017. On 8th June 2016, HSH Nordbank AG issued an ad-hoc announcement stating that the Bank expected that coupon payments on silent participations and profit-participation capital would only take place in 2020 for the fiscal year 2019, at the earliest.

13. FINANCIAL INSTRUMENTS - (CONTINUED)

Credit risk - (continued)

However, on 28th February 2018 a further announcement was made stating that due to the agreed privatisation of HSH Nordbank AG and the upcoming transformation phase, HSH Nordbank AG will not be able to make distributions on the issued hybrid capital instruments in 2020 for the fiscal year 2019 as originally expected and that HSH Nordbank AG expects distributions to be made during 2024 for the fiscal year 2023 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. As at 30th June 2018 and up to the date of approval of these financial statements, the RESPARC Capital Securities issued had a long term credit rating of C from Moody's (31st December 2017: Ca).

HSH Nordbank AG has a long term credit rating of Baa3 from Moody's (31st December 2017: 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 Capital Securities issued nor Profit Participations receivable on the financial assets held at fair value through profit or loss because such amounts are considered to be immaterial given that the RESPARC Capital Securities and financial asset held at fair value through profit or loss may be redeemed on 30th June in any year.

	30th Jun 18		31st Dec 17	
	Financial Assets	Financial Liabilities	Financial Assets	Financial Liabilities
Less than one year	725,266	568,784	651,030	542,451
In more than five years	500,000,000	500,000,000	500,000,000	500,000,000
	€ 500,725,266	€ 500,568,784	€ 500,651,030	€ 500,542,451

In the opinion of the General Partner, given the above maturity profile and the limited recourse nature of the RESPARC Capital Securities issued 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 Capital Securities issued.

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 financial asset held at fair value through profit or loss and interest expense payable on the RESPARC Capital 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.

14. CAPITAL MANAGEMENT - (CONTINUED)

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.

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 (2017: €nil).

Non-current assets

The Partnership does not have non-current assets other than the financial assets at fair value through profit or loss.

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.

17. CURRENT MARKET CONDITIONS - (CONTINUED)

HSH Nordbank - (continued)

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 AG 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.

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.

Satisfactory business development in the run-up to the closing

After the federal state owners sold their shares to private investors on 28th February 2018, the key prerequisite for the successful conclusion of the ongoing privatisation process has been met. Since then, individual conditions leading up to the closing of the share purchase agreement have been fulfilled step by step. From the Bank's point of view, the transition of the Bank from the guarantee scheme of the German Savings Banks Finance Group (Sparkassen-Finanzgruppe) to the guarantee scheme of private banks will result in delays, meaning that it will not be possible to close the transaction in the middle of the year, as the Bank had originally hoped. Instead, the Bank does not expect the closing of the transaction until the fourth quarter. This will also delay the implementation of the transformation process. In this complex process, the Bank is supporting all of the stakeholders involved to the best of its ability in order to bring the agreed change of ownership to a successful conclusion as quickly as possible and, in doing so, lay the necessary foundation for the upcoming optimisation of the business model.

The following developments are particularly worthy of mention as at 30th June 2018:

- **Fulfilment of the closing conditions is progressing**: Following approval by the responsible competition authorities and the federal state parliaments in Schleswig-Holstein and Hamburg, the Deutsche Sparkassen- und Giroverband (DSGV) amended its articles of association in June 2018, opening up the fundamental option of extending membership in the guarantee scheme of the German Savings Banks Finance Group for an additional third year after the closing. At the same time, the Bank has applied for admission to the guarantee schemes of private banks. From today's perspective, the Bank is confident that the outstanding approvals will be granted. Nevertheless, the Bank expects that it will be possible to finalise the completion of the privatisation process, including all approvals issued by the banking supervisory authorities, in the fourth quarter in view of the delays that have occurred.

17. CURRENT MARKET CONDITIONS - (CONTINUED)

Satisfactory business development in the run-up to the closing - (continued)

- **Transformation focusing on earnings and cost initiatives:** The bank-wide transformation project Reset & Go bundles all activities associated with the Bank's realignment. In the period leading up to the closing, the Bank will be focusing on developing and implementing profitable and risk-oriented growth strategies. Within this context, measures are being taken to improve the interrelationship between client wishes and banking products, as well as the associated processes. This includes internal improvements and the reorganisation of existing processes, as well as investments in new products, services and digitalisation topics. In addition, key topics identified with a view to optimising cost structures are being intensively prepared and developed further in order to enable implementation as quickly as possible after closing.

- **Satisfactory business development overall**: Key earnings and cost ratios are in line with expectations, key management indicators relating to capital and liquidity exceed defined ambition levels. The positive development of the risk ratios is consistent with the strategic realignment. New business activities are characterised by slightly improved new business margins and new business profitability that is developing as planned. While the volume of new business, in an environment that is competitive overall, with real estate customers is growing in line with expectations, the development is restrained in the corporate customer segment in particular.

Privatisation process progress

The federal state owners and Sparkassen- und Giroverband für Schleswig-Holstein concluded a share purchase agreement for all of their indirectly held HSH shares (a total of 94.9 %) on 28th February 2018, and therefore agreed the first successful privatisation of a Landesbank in Germany. At the same time, an agreement was reached within the context of the privatisation to relieve HSH Nordbank of large parts of the non-performing legacy loans, as well as to cancel the second loss guarantee prematurely. The closing of the share purchase agreement, the portfolio transaction and the cancellation agreement for the second loss guarantee are still subject to the following conditions, taking the approval that has already been granted into account:

- the European Commission's viability review of the future bank;

- the approval of the banking supervisory authorities (ECB, BaFin and CSSF in Luxembourg); and

- confirmation of the extension of HSH Nordbank AG's membership in the guarantee scheme of the German Savings Banks Finance Group (Sparkassen-Finanzgruppe, SFG) beyond the two years stipulated in the articles of association, namely for an additional third year following the closing of the share purchase agreement.

The Bank currently assumes that the privatisation process will be completed as quickly as possible and, in particular, that the coordination between the guarantee schemes (DSGV and BdB), which is naturally a highly complex matter due to this transition being the first of its kind, meaning that there are no corresponding regulations in place, can be finalised as soon as possible. Due to the ongoing privatisation of HSH Nordbank AG, the Bank has to move from the guarantee scheme of the German Savings Banks Finance Group to the guarantee scheme of private banks, consisting of the Compensation Scheme of German Banks (EdB) and the voluntary deposit guarantee fund (ESF), collectively referred to as BdB; the aim is to achieve a seamless transition between these guarantee schemes. The Deutsche Sparkassen- und Giroverband (DSGV) has taken the first step in this direction by laying the necessary foundation in its articles of association.

17. CURRENT MARKET CONDITIONS - (CONTINUED)

Privatisation process progress - (continued)

Closing in the near future would support the ongoing and necessary restructuring process within the Bank and, as a result, the successful and sustainable realignment of the business model. To this end, the Bank is supporting all of the stakeholders involved to the best of its ability, doing everything in its power to contribute to the successful conclusion of the privatisation process.

Further details on the privatisation process, the portfolio transaction, the cancellation agreement for the second loss guarantee and the related opportunities and risks can be found in the Group Management Report for the 2017 financial year, in particular in the "Forecast, opportunities and risks report" in the section entitled "Forecast report including opportunities and risks".

18. COMPENSATION AGREEMENT

As no income has been 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 2024 (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 received 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.

In accordance with the Compensation Agreement, the Partnership recognised an income in the amount of €159,599 consisting of €117,513 receivable from HSH Nordbank AG, €42,082 receivable equivalent to 99.99% of the withholding tax reclaimable by the Limited Partner and a small amount of non recoverable withholding tax of €4 equivalent to 0.01% of the withholding tax. The settlement of €1,236,283 relating to the initial non-refundable payment was made on 3rd July 2017 whereby the loan payable under the Liquidity Facility was 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 General Partner's opinion, no other significant events have occurred between the reporting date and the date of approval of these financial statements that would be likely to have a material impact upon the Partnership, its reported financial position or its results.