

RESPARCS FUNDING II LIMITED PARTNERSHIP
INTERIM REPORT AND UNAUDITED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30TH JUNE 2019

RESPARCS FUNDING II LIMITED PARTNERSHIP

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RESPARCS FUNDING II LIMITED PARTNERSHIP

REPORT OF THE GENERAL PARTNER

The General Partner, European Capital Investment Opportunities Limited, presents its interim report and the unaudited financial statements of RESPARCS Funding II Limited Partnership (the "Partnership" or "RESPARCS II") for the period ended 30th June 2019.

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 "Capital Securities").

ACTIVITIES AND BUSINESS DEVELOPMENTS

The principal activity of the Partnership is to participate in financing activities arranged for Hamburg Commercial Bank AG ("HCOB" or the "Bank") (formerly, HSH Nordbank Aktiengesellschaft). The Partnership issued €500,000,000 nominal 7.5% Capital Securities, the proceeds from which were used to acquire a silent capital interest (the "Silent Contribution") in the commercial enterprise of HCOB 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 Capital Securities issued by the Partnership is suitable only for financially sophisticated investors who understand the risks and rewards associated with these financial instruments. The Capital Securities are listed and/or traded on the Official Segment of the stock market of Euronext Amsterdam N.V and various German stock exchanges.

HCOB's privatisation process was completed on 28th November 2018 after the Bank secured both regulatory approval and European Commission approval of the acquisition. The privatised bank has changed its name and has been operating under the name Hamburg Commercial Bank since 4th February 2019.

On 30th November 2018, HCOB announced that it had decided to terminate the Silent Contribution together with other similar instruments (together, the "Hybrid Capital Instruments") at the book value as determined in HCOB's unconsolidated balance sheet pursuant to HGB (German GAAP) as of 31st December 2020. In its announcement, HCOB published certain forecasts and projected losses and stated that "based on these annual forecasts, and taking into account the aforementioned losses carried forward, HCOB currently expects that the HGB (German GAAP) book values of the Hybrid Capital Instruments as of 31st December 2020 will be in the area of 15%."

HCOB's announcement on 30th November 2018 also stated that "Pursuant to the terms and conditions of the Securities, the termination of the Silent Participations for Securities will result in redemption of the relevant Securities on the repayment date of the respective Silent Participation for Securities and each of the issuers of the relevant Securities will be required under the terms and conditions of the relevant Securities to use the repayment amount received by it on the repayment date of the relevant Silent Participation for Securities for the repayment of the relevant Securities to the holders thereof. Pursuant to the terms of the Hybrid Capital Instruments, the relevant repayment amount (and thus the redemption amount payable pursuant to the terms and conditions of the Securities) will be identical to the book values of the relevant Silent Participations as determined in Hamburg Commercial Bank AG's unconsolidated balance sheet pursuant to HGB (German GAAP) as of 31st December 2020."

On 10th December 2018, Resparcs II received a termination letter (the "Termination Notice") from HCOB wherein HCOB formally announced the termination of the Resparcs II Participation Agreement with effect from 31st December 2020, whereby the repayment date would be 30th June 2021. Resparcs II immediately submitted the termination letter for legal review. On 21st December 2018, Resparcs II wrote to HCOB to expressly object to the Termination Notice and to preserve any rights that Resparcs II might have regarding the Termination Notice, noting that Resparcs II had received a number of concerns from Capital Securities holders and their legal counsels concerning the legal validity of the Termination Notice.

RESPARCS FUNDING II LIMITED PARTNERSHIP

REPORT OF THE GENERAL PARTNER - (CONTINUED)

ACTIVITIES AND BUSINESS DEVELOPMENTS - (CONTINUED)

On 7th January 2019, the Financial Times newspaper in the UK published an article noting that HCOB was being sued by holders of the Capital Securities and holders of other Hybrid Capital Instruments on the basis that these holders alleged that HCOB had "improperly" lowered the book value of the Hybrid Capital Instruments and therefore the Capital Securities. The Partnership was already aware of certain allegations (the "Claims") against HCOB and had entered into a waiver of time-bar agreement of 12th October 2018 (the "Waiver") under which HCOB has waived towards Resparcs II HCOB's right to raise the defence that the statute of limitation or any other relevant time limits have expired between the conclusion of the Waiver and 31st December 2019 with respect to the Claims, whether they are known or unknown and they have already arisen or not, to the extent that any of these potential Claims had not already been time-barred as at the date of conclusion of the Waiver.

On 12th February 2019, HCOB published a further announcement wherein it stated that "Due to higher than expected losses under HGB (German GAAP) for the year ended 2018 and changed forecasts for fiscal years 2019 and 2020, the projected HGB (German GAAP) book values of Silent Participations for Securities as of 31st December 2020 are currently expected to be well below 10%."

GOING CONCERN

As previously stated, HCOB has served the Partnership with a Termination Notice in respect of the Silent Contribution which, if such Termination Notice subsequently proves to be valid, would result in redemption of the Capital Securities on 30th June 2021. Although the Partnership is not currently directly involved in any litigation, the General Partner is aware of certain allegations (the "Claims") against HCOB and the Partnership and considers that the Claims could potentially result in the Partnership becoming directly involved in litigation. In the General Partner's opinion, these uncertainties create doubt regarding whether or not the Partnership should continue to be considered as a going concern.

Notwithstanding the above, due to the nature of the structure and the existence of the Support Undertaking, Compensation Agreement and Liquidity Facility, the General Partner is of the opinion that the Partnership will be able to meet its obligations as they fall due for the foreseeable future. Therefore the financial statements have been prepared on a going concern basis.

RESULTS FOR THE PERIOD

The loss for the period amounted to €134,803 (2018: profit of €47,903).

DIRECTORS OF THE GENERAL PARTNER

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

S.J. Hopkins

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

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;
- * 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 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 2019 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.



S.J. Hopkins

Signed on behalf of
European Capital Investment Opportunities Limited
General Partner
Date: 30th September 2019

RESPARCS FUNDING II LIMITED PARTNERSHIP

STATEMENT OF FINANCIAL POSITION

AS AT 30TH JUNE 2019

	<u>Notes</u>	<u>30th Jun 19</u>	<u>31st Dec 18</u>
ASSETS			
NON-CURRENT ASSETS			
Financial asset at fair value through profit or loss	2	116,235,000	188,620,000
CURRENT ASSETS			
Trade and other receivables	3	716,984	536,935
Cash and cash equivalents	4	171,025	171,120
		888,009	708,055
TOTAL ASSETS	€	117,123,009	€ 189,328,055
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Capital account	6	1,000	1,000
Capital contribution	6	1,501,807	1,501,807
Retained deficit		(1,502,807)	(1,368,004)
TOTAL PARTNERS' EQUITY		-	134,803
NON-CURRENT LIABILITIES			
Capital Securities at fair value through profit or loss	8	116,235,000	188,620,000
CURRENT LIABILITIES			
Loans payable	7	645,290	464,240
Trade and other payables	5	242,719	109,012
		888,009	573,252
TOTAL LIABILITIES		117,123,009	189,193,252
TOTAL EQUITY AND LIABILITIES	€	117,123,009	€ 189,328,055

The financial statements on pages 5 to 26 were approved and authorised for issue by the Board of the General Partner on the 30th day of September 2019 and were signed on its behalf by:



Director: J.N. Pendergast

(The notes on pages 9 to 26 form part of these financial statements)

RESPARCS FUNDING II LIMITED PARTNERSHIP

STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD 1ST JANUARY 2019 TO 30TH JUNE 2019

		1st Jan 19 to 30th Jun 19	1st Jan 18 to 30th Jun 18
	<u>Notes</u>		
FINANCE INCOME			
Finance income:			
Revaluation of financial asset at fair value through profit or loss	2	(72,385,000)	(16,835,000)
Revaluation of Capital Securities	8	72,385,000	16,835,000
Income from HSH Nordbank AG under Compensation Agreement	18	183,848	159,599
Unrealised gain on exchange		1,216	-
		<hr/>	<hr/>
TOTAL INCOME		185,064	159,599
		<hr/>	<hr/>
EXPENDITURE			
Amount repayable to HCOB under the Compensation Agreement		157,102	-
Support undertaking fees		60,667	60,667
Legal and professional fees		2,397	6,425
Administration fees		80,032	18,632
Management fees		3,878	2,651
Audit fees		8,902	8,897
ISE fees		232	228
Bank charges		94	195
Non-recoverable withholding tax	18	5	4
Expenses paid on behalf of General Partner and Trust		6,388	13,119
German fiscal fees payable		-	263
Unrealised loss on exchange		-	562
		<hr/>	<hr/>
		319,697	111,643
		<hr/>	<hr/>
FINANCE EXPENDITURE			
Finance costs:			
Loan interest		170	53
		<hr/>	<hr/>
TOTAL EXPENDITURE		319,867	111,696
		<hr/>	<hr/>
(LOSS)/PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		€ (134,803) €	47,903
		<hr/> <hr/>	<hr/> <hr/>

Other comprehensive income

There were no items of other comprehensive income.

(The notes on pages 9 to 26 form part of these financial statements)

RESPARCS FUNDING II LIMITED PARTNERSHIP

STATEMENT OF CHANGES IN PARTNERS' EQUITY

FOR THE PERIOD 1ST JANUARY 2019 TO 30TH JUNE 2019

	<u>Capital account</u>	<u>Capital contribution</u>	<u>Retained deficit</u>	<u>Total</u>
	€	€	€	€
Balance at 1st January 2019	1,000	1,501,807	(1,368,004)	134,803
Comprehensive income:				
- Loss for the period	-	-	(134,803)	(134,803)
Balance at 30th June 2019	<u>1,000</u>	<u>1,501,807</u>	<u>(1,502,807)</u>	<u>-</u>
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	<u>1,000</u>	<u>1,501,807</u>	<u>(1,346,325)</u>	<u>156,482</u>

(The notes on pages 9 to 26 form part of these financial statements)

RESPARCS FUNDING II LIMITED PARTNERSHIP

STATEMENT OF CASH FLOWS

FOR THE PERIOD 1ST JANUARY 2019 TO 30TH JUNE 2019

	<u>Notes</u>	<u>1st Jan 19 to 30th Jun 19</u>	<u>1st Jan 18 to 30th Jun 18</u>
Cash flows from operating activities			
(Loss)/Profit and total comprehensive income for the period		(134,803)	47,903
Increase/(Decrease) in trade and other payables	5	133,707	(47,970)
Increase in trade and other receivables	3	(180,049)	(74,329)
Revaluation of financial asset at fair value through profit or loss	2	72,385,000	16,835,000
Revaluation of Capital Securities at fair value through profit or loss	8	(72,385,000)	(16,835,000)
Net cash used in operating activities		(181,145)	(74,396)
Cash flows from financing activities			
Amount drawn under liquidity facility		181,050	74,303
Net cash generated from financing activities		181,050	74,303
Net decrease in cash and cash equivalents		(95)	(93)
Cash and cash equivalents at the beginning of the period		171,120	171,304
Cash and cash equivalents at the end of the period	4	€ 171,025	€ 171,211
Reconciliation of movement in net debt			
	Debt	Cash	Net Debt
Opening balance as at 1st January 2019	(189,127,199)	171,120	(188,956,079)
Cash movement during the period	(181,221)	(95)	(181,316)
Non-cash movement during the period	72,385,000	-	72,385,000
Closing balance as at 30th June 2019	€ (116,923,420)	€ 171,025	€ (116,752,395)

(The notes on pages 9 to 26 form part of these financial statements)

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD 1ST JANUARY 2019 TO 30TH JUNE 2019

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 Hamburg Commercial Bank AG ("HCOB" or the "Bank") (formerly, HSH Nordbank Aktiengesellschaft) to fund its ongoing expenses under the terms of the Support Undertaking and Compensation Agreement. These financial statements have been prepared on the basis that the Partnership is currently a going concern, which in turn, is based mainly upon the assumption that the Bank is a going concern. With regard to the going concern assumption for the Bank, HCOB's most recent published audited financial statements were prepared on a going concern basis and the General Partner is not aware of any reason to doubt that the Bank should be able to continue as a going concern for the foreseeable future.

As stated in the Report of the General Partner, HCOB has served the Partnership with a Termination Notice in respect of the Silent Contribution which, if such Termination Notice subsequently proves to be valid, would result in redemption of the Capital Securities on 30th June 2021. Although the Partnership is not currently directly involved in any litigation, the General Partner is aware of certain allegations (the "Claims") against HCOB and the Partnership and considers that the Claims could potentially result in the Partnership becoming directly involved in litigation. In the General Partner's opinion, these uncertainties create doubt regarding whether or not the Partnership should continue to be considered as a going concern.

Notwithstanding the above, due to the nature of the structure and the existence of the Support Undertaking, Compensation Agreement and Liquidity Facility, the General Partner is of the opinion that the Partnership will be able to meet its obligations as they fall due for the foreseeable future. Therefore the financial statements have been prepared on a going concern basis.

New accounting standards, amendments to existing accounting standards and/or interpretations of existing accounting standards (separately or together, "New Accounting Requirements") adopted during the current year

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

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2019 TO 30TH JUNE 2019

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

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 ("FVTPL"). 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

Under IFRS 9, loan loss provisions/impairments on all financial assets that are recognised at amortised cost are estimated in accordance with a model based on the expected credit losses.

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).

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2019 TO 30TH JUNE 2019

1. ACCOUNTING POLICIES - (CONTINUED)

Impairment - (continued)

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 HCOB 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.

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 at fair value through profit or loss

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.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2019 TO 30TH JUNE 2019

1. ACCOUNTING POLICIES - (CONTINUED)

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 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 Contribution 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.

The Directors' assessment of whether a market should be considered to be active or inactive may vary from period to period, depending on factors such as market conditions. As at the reporting date, the Directors used the following parameters as guidance: a market may ordinarily be considered to be active if either (i) trading takes place on at least 10 days per month on average during the financial year (with such trades resulting in a cumulative aggregate nominal amount traded of at least 2% of the outstanding nominal amount), or (ii) the cumulative aggregate nominal amount traded during the financial year was at least 10% of the outstanding nominal amount. When considering whether or not the market for a particular security is active, the Directors considered the volume traded across all observable markets and trading venues, not solely the volume traded on the principal market.

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.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2019 TO 30TH JUNE 2019

1. ACCOUNTING POLICIES - (CONTINUED)

Foreign currencies

a) Functional currency and presentation currency

The principal activity of the Partnership is to participate in financing activities arranged for HCOB, a German Bank. The Partnership's investment in the Silent Contribution and the Capital Securities issued are denominated in Euro. As such, the General Partner considers Euro as the currency of the primary economic environment in which the Partnership 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 date 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 2019 (year ended 31st December 2018: none).

Profit participation income and deposit interest income

Profit Participation income is accounted for on an accrual basis using the effective interest rate method. 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 considers the Partnership as a whole to be the 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.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2019 TO 30TH JUNE 2019

2. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

Silent capital interest in the commercial enterprise of HSH Nordbank AG

	<u>30th Jun 19</u>	<u>31st Dec 18</u>
Opening balance as at 1st January	188,620,000	215,315,000
Fair value movement during the period/year	(72,385,000)	(26,695,000)
Closing balance	€ 116,235,000	€ 188,620,000
Notional amount outstanding at the period/year end	€ 500,000,000	€ 500,000,000

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

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 HCOB's annual financial statements have been adopted for the fiscal year of HCOB 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, HCOB 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 HCOB 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 HCOB having sufficient distributable profits, Profit Participations accrue on the book value of the Silent Contribution at a rate of 7.65% p.a.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2019 TO 30TH JUNE 2019

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

The Silent Contribution is a perpetual instrument. The Silent Contribution will only be repaid to the Silent Partner after termination of the Participation Agreement by HCOB. HCOB 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 HCOB's solvency ratio exceeds 9% on a sustainable, unconsolidated or consolidated basis.

Profit Participations are not currently receivable due to HCOB's net balance sheet loss position.

On 30th November 2018, HCOB announced that it had decided to terminate the Silent Contribution together with other similar instruments (together, the "Hybrid Capital Instruments") at the book value as determined in HCOB's unconsolidated balance sheet pursuant to HGB (German GAAP) as of 31st December 2020. In its announcement, HCOB published certain forecasts and projected losses and stated that "based on these annual forecasts, and taking into account the aforementioned losses carried forward, HCOB currently expects that the HGB (German GAAP) book values of the Hybrid Capital Instruments as of 31st December 2020 will be in the area of 15%."

On 10th December 2018, Resparcs II received a termination letter (the "Termination Notice") from HCOB wherein HCOB formally announced the termination of the Resparcs II Participation Agreement with effect from 31st December 2020, whereby the repayment date would be 30th June 2021. Resparcs II immediately submitted the termination letter for legal review. On 21st December 2018, Resparcs II wrote to HCOB to expressly object to the Termination Notice and to preserve any rights that Resparcs II might have regarding the Termination Notice, noting that Resparcs II had received a number of concerns from Capital Securities holders and their legal counsels concerning the legal validity of the Termination Notice.

On 7th January 2019, the Financial Times newspaper in the UK published an article noting that HCOB was being sued by holders of the Capital Securities and holders of other Hybrid Capital Instruments on the basis that these holders alleged that HCOB had "improperly" lowered the book value of the Hybrid Capital Instruments and therefore the Capital Securities. The Partnership was already aware of certain allegations (the "Claims") against HCOB and had entered into a waiver of time-bar agreement of 12th October 2018 (the "Waiver") under which HCOB has waived towards Resparcs II HCOB's right to raise the defence that the statute of limitation or any other relevant time limits have expired between the conclusion of the Waiver and 31st December 2019 with respect to the Claims, whether they are known or unknown and they have already arisen or not, to the extent that any of these potential Claims had not already been time-barred as at the date of conclusion of the Waiver.

On 12th February 2019, HCOB published a further announcement wherein it stated that "Due to higher than expected losses under HGB (German GAAP) for the year ended 2018 and changed forecasts for fiscal years 2019 and 2020, the projected HGB (German GAAP) book values of Silent Participations for Securities as of 31st December 2020 are currently expected to be well below 10%."

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

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2019 TO 30TH JUNE 2019

3. TRADE AND OTHER RECEIVABLES	<u>30th Jun 19</u>	<u>31st Dec 18</u>
Amounts receivable under Compensation Agreement	135,358	3,795
Withholding tax receivable	581,626	533,140
	<hr/>	<hr/>
	€ 716,984	€ 536,935
	<hr/> <hr/>	<hr/> <hr/>
4. CASH AND CASH EQUIVALENTS	<u>30th Jun 19</u>	<u>31st Dec 18</u>
HCOB - EUR accounts	€ 171,025	€ 171,120
	<hr/> <hr/>	<hr/> <hr/>
5. TRADE AND OTHER PAYABLES	<u>30th Jun 19</u>	<u>31st Dec 18</u>
Amount repayable to HCOB under the Compensation Agreement	157,102	-
Administration fees payable	6,565	17,530
Loan interest payable	43,130	42,959
Support undertaking fees payable	30,333	30,333
Audit fee payable	5,030	17,633
Transaction fee payable	559	557
	<hr/>	<hr/>
	€ 242,719	€ 109,012
	<hr/> <hr/>	<hr/> <hr/>

As explained in note 2, there has been no Profit Participation income receivable during the year ended 31st December 2018. Since the coupon payments on the Capital Securities issued are contingent on the receipt of Profit Participation income, no accrual has been made as at 31st December 2018 in respect of interest payable.

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 (the "LPA") 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 Shares subject to the fact that the total liability of the Limited Partner shall not exceed the Capital Contribution of the Limited Partner.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2019 TO 30TH JUNE 2019

6. PARTNERSHIP INTERESTS - (CONTINUED)

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 19</u>	<u>31st Dec 18</u>
Liquidity Facility	€ 645,290	€ 464,240

The Partnership was granted, by HCOB, 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

	<u>30th Jun 19</u>	<u>31st Dec 18</u>
Opening balance at 1st January	188,620,000	215,315,000
Fair value movement during the period/year	(72,385,000)	(26,695,000)
Closing balance	€ 116,235,000	€ 188,620,000
Notional amount outstanding at the period end	€ 500,000,000	€ 500,000,000
Estimated fair value in the absence of credit deterioration at HCOB	€ 539,827,191	€ 546,138,897
Estimated cumulative fair value movement resulting from credit deterioration at HCOB	€ (423,592,191)	€ (357,518,897)
Estimated fair value movement during the period resulting from credit deterioration at HCOB	€ (66,073,294)	

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 proceeds from which have been used to acquire a silent capital interest in the commercial enterprise of HCOB 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 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. The commercial effect of the Terms and Conditions of the Capital Securities is that coupon payments thereon are contingent on the Partnership's actual receipt of Profit Participation payments from HCOB under the Participation Agreement and advances from HCOB Luxembourg Branch under the Loan Agreement.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2019 TO 30TH JUNE 2019

8. CAPITAL SECURITIES - (CONTINUED)

The Capital Securities issued are perpetual Capital Securities, having no mandatory maturity date. However, the Capital Securities issued may be redeemed, at the option of HCOB, 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 HCOB 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.

Any change in expected cash flows following the non-payment of the Silent Contribution in the period and the likelihood of the non-payment of the Profit Participation in the future would result in an equal and opposite effect on the Capital Securities issued. The Capital Securities holders therefore bear the ultimate risk regarding the ability of HCOB to make payments on the Silent Contribution.

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

As stated in the Report of the General Partner, on 30th November 2018, HCOB announced that it had decided to terminate the Silent Contribution together with other similar instruments (together, the "Hybrid Capital Instruments") at the book value as determined in HCOB's unconsolidated balance sheet pursuant to HGB (German GAAP) as of 31st December 2020. In its announcement, HCOB published certain forecasts and projected losses and stated that "based on these annual forecasts, and taking into account the aforementioned losses carried forward, HCOB currently expects that the HGB (German GAAP) book values of the Hybrid Capital Instruments as of 31st December 2020 will be in the area of 15%". On 12th February 2019, this projection was revised downwards to "well below 10%".

HCOB announced on 30th November 2018 and 12th February 2019 that "Pursuant to the terms and conditions of the Securities, the termination of the Silent Participations for Securities will result in redemption of the relevant Securities on the repayment date of the respective Silent Participation for Securities and each of the issuers of the relevant Securities will be required under the terms and conditions of the relevant Securities to use the repayment amount received by it on the repayment date of the relevant Silent Participation for Securities for the repayment of the relevant Securities to the holders thereof. Pursuant to the terms of the Hybrid Capital Instruments, the relevant repayment amount (and thus the redemption amount payable pursuant to the terms and conditions of the Securities) will be identical to the book values of the relevant Silent Participations as determined in Hamburg Commercial Bank AG's unconsolidated balance sheet pursuant to HGB (German GAAP) as of 31 December 2020."

On 10th December 2018, Resparcs II received a termination letter (the "Termination Notice") from HCOB wherein HCOB formally announced the termination of the Resparcs II Participation Agreement with effect from 31st December 2020, whereby the repayment date would be 30th June 2021. Resparcs II immediately submitted the termination letter for legal review. On 21st December 2018, Resparcs II wrote to HCOB to expressly object to the Termination Notice and to preserve any rights that Resparcs II might have regarding the Termination Notice, noting that Resparcs II had received a number of concerns from Capital Securities holders and their legal counsels concerning the legal validity of the Termination Notice.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2019 TO 30TH JUNE 2019

8. CAPITAL SECURITIES - (CONTINUED)

On 7th January 2019, the Financial Times newspaper in the UK published an article noting that HCOB was being sued by holders of the Capital Securities and holders of other Hybrid Capital Instruments on the basis that these holders alleged that HCOB had "improperly" lowered the book value of the Hybrid Capital Instruments and therefore the Capital Securities. The Partnership was already aware of certain allegations (the "Claims") against HCOB and had entered into a waiver of time-bar agreement of 12th October 2018 (the "Waiver") under which HCOB has waived towards Resparcs II HCOB's right to raise the defence that the statute of limitation or any other relevant time limits have expired between the conclusion of the Waiver and 31st December 2019 with respect to the Claims, whether they are known or unknown and they have already arisen or not, to the extent that any of these potential Claims had not already been time-barred as at the date of conclusion of the Waiver.

Details regarding how the fair value of the Capital Securities issued have been estimated are disclosed in note 13.

9. SUPPORT UNDERTAKING AND SUPPORT UNDERTAKING FEES

The liabilities of the Partnership are supported by HCOB Luxembourg Branch under a Support Undertaking dated 26th May 2003. HCOB Luxembourg Branch has undertaken to ensure that the Partnership will at all times be in a position to meet its obligations. HCOB Luxembourg Branch's payment obligations under the Support Undertaking are subordinated to all senior and subordinated debt obligations of HCOB Luxembourg Branch in the same manner as HCOB's payment obligations under the Participation Agreement are subordinated. A Support Undertaking Fee is payable by the Partnership to HCOB Luxembourg Branch, 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 accordance with the LPA, the Partnership is controlled on a day-to-day basis by its General Partner. The General Partner is owned 51% by HCOB and 49% by Sanne Trustee Services Limited as Trustee of the European Capital Investment Charitable Trust, which is a charitable trust constituted under the laws of Jersey, Channel Islands. As disclosed in note 6, the General Partner's Partnership Share is 0.01% and the Limited Partner's Partnership Share is 99.99%. Under IFRS, HCOB is considered to be the ultimate controlling party of the Partnership.

12. RELATED PARTIES

Each of J.N. Pendergast 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 and J.N. Pendergast 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 2019 TO 30TH JUNE 2019

12. RELATED PARTIES - (CONTINUED)

The Partnership is consolidated within the HCOB group and therefore HCOB 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 year 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, 9 and 13.

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 HCOB. The Partnership has issued the Capital Securities and the proceeds from which have been used to acquire the Silent Contribution in the commercial enterprise of HCOB. 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 mitigate significant elements of risk generated by mismatches of investment performance against its obligations, together with any maturity, liquidity or interest rate risk. Accordingly, the risks associated with the Partnership's financial assets and financial liabilities are ultimately borne by the holders of the Capital Securities.

Determination of fair value

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 observed market prices ("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 an observable market price is available at which a transaction could have been performed or was performed at, or reasonably close to, the reporting date.

The mark-to-market method was used to measure the fair value of the Capital Securities, which are listed or traded on the Official Segment of the stock market of Euronext Amsterdam N.V and various German stock exchanges. The Silent Contribution is neither quoted nor traded in any market. Consequently, no observable market price exists for the Silent Contribution. The fair value of the Silent Contribution was determined using a mark-to-matrix methodology whereby the fair value of the Silent Contribution was estimated to be equal and opposite to the fair value of the Capital Securities.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2019 TO 30TH JUNE 2019

13. FINANCIAL INSTRUMENTS - (CONTINUED)

Determination of fair value - (continued)

The estimated fair value of the Capital Securities was obtained from the quoted market price as reported by Bloomberg. As at 30th June 2019, the quoted market price of the Capital Securities was 23.247% (31st December 2018: 37.724%) of the nominal value. As stated in note 1, the estimation of the fair value of the Capital Securities (and correspondingly the Silent Contribution) represents a significant area of uncertainty. Nevertheless, the Directors of the General Partner believe that the quoted market price of the Capital Securities represents the most reliable available objective estimate of their fair value in accordance with IFRS 13, which prioritises observable market prices over unobservable inputs.

The Directors of the General Partner have considered the frequency and volume of trades observed and, from the information available to the Directors, the greatest frequency and volume of trading generally appears to occur on the Stuttgart Stock Exchange. Consequently, in the opinion of the Directors of the General Partner, the Stuttgart Stock Exchange should be considered to be the principal market.

The terms of the Silent Contribution are identical in all material respects to those of the Capital Securities, except for the fact that the 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 Capital Securities. Therefore the quoted market price of the Capital Securities represents the best available objective estimate of the fair value of the Silent Contribution.

The carrying values and fair values of the Partnership's principal financial assets and liabilities are presented below.

	<u>30th Jun 19</u>		<u>31st Dec 18</u>	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Financial asset at FVTPL	€ 116,235,000	€ 116,235,000	€ 188,620,000	€ 188,620,000
Financial liabilities:				
Capital Securities at FVTPL	€ 116,235,000	€ 116,235,000	€ 188,620,000	€ 188,620,000

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 Capital Securities as at 31st June 2019 and considers that the market price reflects current adverse conditions affecting the financial position of HCOB to which the holders of the Capital Securities issued are exposed.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2019 TO 30TH JUNE 2019

13. FINANCIAL INSTRUMENTS - (CONTINUED)

Fair value hierarchy

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

30th June 2019	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial asset at FVTPL	€ -	€ 116,235,000	€ -	€ 116,235,000
Financial liabilities:				
Capital Securities at FVTPL	€ 116,235,000	€ -	€ -	€ 116,235,000
31st December 2018				
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial asset at FVTPL	€ -	€ 188,620,000	€ -	€ 188,620,000
Financial liabilities:				
Capital Securities at FVTPL	€ 188,620,000	€ -	€ -	€ 188,620,000

The fair value of the Capital Securities is derived directly from the unadjusted quoted price on the German stock exchanges which, in the General Partner's opinion, is considered to be an active market as defined by IFRS 13. As a result, the Capital Securities have been classified as Level 1 financial instruments.

As the fair value of the Silent Contribution is derived directly from the fair value of the Capital Securities, the fair value of the Silent Contribution is classified within Level 2.

Changes in fair value hierarchy are analysed at the end of each reporting period. The Partnership's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period. There were no transfers between fair value hierarchy levels during the current period.

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 Capital Securities. The coupons payable on the 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 Capital Securities as the interest rates are effectively fixed.

The contractual interest rate profile of the Partnership's financial assets and financial liabilities is presented in the following table. It should be noted that the Profit Participation on the financial assets at FVTPL and the interest on the Capital Securities have been suspended as explained in notes 2 and 8.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2019 TO 30TH JUNE 2019

13. FINANCIAL INSTRUMENTS - (CONTINUED)

Market risk - (continued)

		<u>30th Jun 19</u>		<u>31st Dec 18</u>	
	Interest charging basis	Effective interest rate %	Carrying value	Effective interest rate %	Carrying value
Financial assets:					
Financial assets at FVTPL	Fixed	7.65%	116,235,000	7.65%	188,620,000
Cash and cash equivalents	Floating	nil	171,025	nil	171,120
			<u>€ 116,406,025</u>		<u>€ 188,791,120</u>
Financial liabilities:					
Loans payable	Floating	12M Euribor + 0.3%	645,290	12M Euribor + 0.3%	464,240
Capital Securities at FVTPL	Fixed	7.50%	116,235,000	7.50%	188,620,000
			<u>€ 116,880,290</u>		<u>€ 189,084,240</u>

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 Capital Securities.

Sensitivity analysis

As disclosed above, in the General Partner's opinion, there is no material difference between the fair value of the Capital Securities and the fair value of the Silent Contribution. From the perspective of the Partnership, any change in the fair value of the 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 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.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2019 TO 30TH JUNE 2019

13. FINANCIAL INSTRUMENTS - (CONTINUED)

Credit risk

Credit risk arises from the risk that HCOB and affiliates may not repay, if requested, all amounts due to the Partnership under the Silent Contribution and any withholding tax receivable. On the basis that the 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 Contribution, 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 Capital Securities.

For further information relating to the recoverable amount that might ultimately be realised from the Silent Contribution, please refer to note 2.

As at 30th June 2019 and up to the date of approval of these financial statements, the Capital Securities issued had a long term credit rating from Moody's of C(hyb) (31st December 2018: C(hyb)). HCOB has a long term credit rating from Moody's of Baa2 (31st December 2018: Baa2).

Maturity of financial assets and liabilities - liquidity risk

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 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 Capital Securities and financial asset held at fair value through profit or loss may be redeemed on 30th June in any year.

	<u>30th Jun 19</u>		<u>31st Dec 18</u>	
	Financial Assets	Financial Liabilities	Financial Assets	Financial Liabilities
Less than one year	888,009	888,009	708,055	573,252
In more than one and less than five years	500,000,000	500,000,000	500,000,000	500,000,000
	<u>€ 500,888,009</u>	<u>€ 500,888,009</u>	<u>€ 500,708,055</u>	<u>€ 500,573,252</u>

In the opinion of the General Partner, given the above maturity profile, the nature of the 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 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 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.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2019 TO 30TH JUNE 2019

14. CAPITAL MANAGEMENT - (CONTINUED)

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 HCOB Luxembourg Branch 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

The General Partner, European Capital Investments Opportunities Limited is responsible for the Partnership's operations and considers the Partnership to have a single operating segment. The Partnership Participates in financing activities arranged for HCOB. The internal reporting provided to the General Partner for the Partnership's assets, liabilities and performance is prepared on a consistent basis with the measurement and recognition principles of IFRS. There were no changes in the reportable segments during the year.

Geographical information

The Partnership's revenues are generated from Germany.

Non-current assets

The Partnership does not have non-current assets other than the financial asset at FVTPL.

Major investment company

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

16. KEY MANAGEMENT PERSONNEL

The key management personnel have been identified as being the Directors of the General Partner. The personal emoluments of the key management personnel are paid by Sanne Group which makes no direct recharge to the Partnership. It is therefore not possible to make a reasonable apportionment of their personal emoluments in respect of the Limited Partnership. Directors fees with respect to the General Partner payable to Sanne Group amount to £4,000 per annum (2018: £4,000).

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2019 TO 30TH JUNE 2019

17. COMPENSATION AGREEMENT

As no income has been received from the Silent Contribution since 2009, the Partnership relies on the Liquidity Facility to pay for ongoing operational costs and expenses. To rectify this situation, the Partnership entered into a Compensation Agreement (the "Agreement") with HCOB 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 as 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 HCOB.

In accordance with the Compensation Agreement, the Partnership recognised an income in the amount of €183,848 (year ended 31st December 2018: €260,696) consisting of €135,363 (year ended 31st December 2018: €191,906) receivable from HCOB, €48,490 (year ended 31st December 2018: €68,747) 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 (year ended 31st December 2018: €7) equivalent to 0.01% of the withholding tax. The withholding tax receivable will be received by the Partnership from the Limited Partner upon receipt from the German tax authorities.

18. CONTINGENT LIABILITY

As previously stated, although the Partnership is not currently directly involved in any litigation, the General Partner is aware of certain allegations (the "Claims") against HCOB and the Partnership and considers that the Claims could potentially result in the Partnership becoming directly involved in litigation. In the event that any Claims are eventually made against the Partnership and are successful, the Partnership's liabilities may exceed the amount of the Partnership's liabilities presented in these financial statements. However, in the General Partner's opinion, it is not currently possible to reliably forecast whether or not any such successful Claims will arise nor is it possible to reliably forecast the amount of any resulting liabilities that might arise in the Partnership.

19. SUBSEQUENT EVENTS

In the General Partner's opinion, other than the matters already disclosed in these financial statements, no 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.