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# ***INDEPENDENT AUDITOR'S REPORT***

RESPARCS FUNDING II LIMITED PARTNERSHIP  
St. Helier, Jersey

Annual Financial Statements and Management Report for the year  
ended 31st December 2019



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**ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31ST DECEMBER 2019**

# **RESPARCS FUNDING II LIMITED PARTNERSHIP**

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## **RESPARCS FUNDING II LIMITED PARTNERSHIP**

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### **MANAGEMENT REPORT**

#### **BUSINESS MODEL AND STRATEGY, INCLUDING PRINCIPAL ACTIVITIES**

The principal activity of RESPARCS Funding II Limited Partnership (the "Partnership" or "RESPARCS II") 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.

#### **ECONOMIC POSITION AND RECENT DEVELOPMENTS**

The Partnership considers its key performance indicators (KPIs) to be: (i) the net assets of the Partnership (or Total Partners' Equity) as at the financial period end date; (ii) the profit or loss for the financial period; (iii) the amount of Profit Participation income received on the Silent Contribution during the financial period; and, (iv) the amount of interest paid on the Capital Securities during the financial period.

The Total Partners' Equity as at 31 December 2019 was €nil (2018: €134,803) and the loss for the financial year then ended was €134,803 (2018: profit of €26,224). No Profit Participation income has been received on the Silent Contribution since 2009 and, consequently, no interest has been paid on the Capital Securities since 2009.

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 Contributions for Securities as of 31st December 2020 are currently expected to be well below 10%."

## **RESPARCS FUNDING II LIMITED PARTNERSHIP**

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### **MANAGEMENT REPORT - (CONTINUED)**

#### **ECONOMIC POSITION AND RECENT DEVELOPMENTS - (CONTINUED)**

On 19th December 2019, HCOB announced that it had agreed a settlement with holders of Capital Securities represented by Quinn Emanuel Urquhart & Sullivan (QE) whereby HCOB would buy back the relevant Capital Securities at a settlement price of 36.24% of the nominal value plus a settlement fee of 1.0% of the nominal value. HCOB also announced that it would offer to buy back all other remaining Capital Securities at the same settlement price of 36.24% of the nominal value.

Also on 19th December 2019, HCOB announced within both its institutional and retail invitation to holders of the Securities ("Eligible Holders") of the outstanding EUR500,000,000 RESPARC Securities issued by RESPARCS Funding II Limited Partnership that HCOB estimated that the projected HGB (German GAAP) book values of Silent Contributions for Securities as of 31st December 2020 would be "less than 5%."

In both its institutional and retail offers on 19th December 2019, HCOB announced that it estimated that the projected HGB (German GAAP) book value of the Capital Securities as at 31st December 2020 would be "below 5%".

Further to its buy back offer, HCOB had acquired EUR369,927,000 (or 74.0%) of the outstanding nominal amount of the Capital Securities as at 31st December 2019 and EUR454,607,000 (or 90.9%) of the outstanding nominal amount of the Capital Securities as at the date of approval of these financial statements.

#### **RISKS AND OPPORTUNITIES, INCLUDING RELATED ASSUMPTIONS, ECONOMIC POSITION AND LIKELY FUTURE DEVELOPMENTS IN THE CURRENT FINANCIAL YEAR**

The risks and opportunities facing the Partnership which may impact upon the Partnership's economic position and prospects and likely future developments in the coming year relating thereto are closely linked to those applicable to HCOB.

HCOB's Chief Executive Officer stated the following in HCOB's annual report for the year ended 31 December 2019, as prepared under IFRS: "Our privatisation in 2019 gave us a big boost and provided many emotional moments, which carried us far into the year 2019. At the same time, 2019 was full of challenging tasks. This is hardly surprising because we want to turn HCOB into one of the best banks in Germany. To achieve this, we drove our profound, long-term transformation even further in 2019. And we successfully asserted ourselves in the market: with earnings before taxes of 77 million euros we are in line with our expectations. We can be satisfied with this result for the past financial year. At 18.5, we have a very strong CET1 ratio, and the quality of the balance sheet has also continued to improve. The profitability of our new business activities has improved substantially; a contributing factor here was the perceptible improvement in funding terms following the bank's realignment. The bank's return to the capital market with new issues has been a success - HCOB has gained full acceptance on the capital market."

HCOB's Chief Risk Officer and Deputy CEO stated the following in HCOB's annual report for the year ended 31 December 2019, as prepared under IFRS: "Our first year as a new bank was very successful overall - and from a risk perspective, interesting and good. Our goal is to anticipate what is happening on the markets and what risks might occur. We therefore seek to develop solutions well ahead of time. Our new Supervisory Board includes many experts with whom we hold in-depth discussions. This helps us become better as a bank. After all, it's not just a matter of protecting the bank against risks - that is only part of the equation. We also want to make the bank much more profitable."

For up-to-date information regarding the risks and opportunities facing HCOB and HCOB's economic position and prospects and likely future developments relating thereto, please refer to HCOB's website at <https://www.hcob-bank.de/en/startseite/> (HCOB's latest financial news and reports can be found at <https://www.hcob-bank.de/en/investoren/konzernberichterstattung/konzernberichterstattung/>).

## **RESPARCS FUNDING II LIMITED PARTNERSHIP**

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### **MANAGEMENT REPORT - (CONTINUED)**

#### **RISKS AND OPPORTUNITIES, INCLUDING RELATED ASSUMPTIONS, ECONOMIC POSITION AND LIKELY FUTURE DEVELOPMENTS - (CONTINUED)**

The General Partner expects the following financial results for the Partnership for the current financial year: net assets of the Partnership (or Total Partners' Equity) as at 31 December 2020 of €nil; a net result of €nil for the financial year then ending; no Profit Participation income to be received on the Silent Contribution; and, consequently, no interest to be paid on the Capital Securities.

The principal risk factors that are directly relevant to the Partnership during the current financial year are disclosed in the following paragraphs and, except for the risks arising from the impact of COVID-19, are unchanged from all prior years.

#### **PRINCIPAL FINANCIAL RISK FACTORS AND FINANCIAL RISK MANAGEMENT CONTROLS**

As stated above, the principal activity of the Partnership is limited to participation in financing activities arranged for HCOB. The Partnership has issued the Capital Securities. The proceeds from the issue of the Capital Securities have been used to acquire a silent capital interest 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 liabilities provide the majority of the assets and liabilities of the Partnership along with substantially all of the income and expenditure.

The strategies used by the Partnership in achieving its objectives regarding the use of its financial assets and liabilities were set when the Partnership entered into the transactions. The Partnership has attempted, as far as is practicable, to match the properties of its financial liabilities to those of its financial assets to mitigate significant elements of risk generated by mismatches of investment performance against its obligations, together with any maturity 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 and, as referred to above, relate to risks applicable to HCOB's business.

#### **MARKET RISK - INTEREST RATE RISK**

The Limited Partnership finances its operations through the issue of the Capital Securities. The coupons payable on the Capital Securities and the Profit Participations receivable on the Silent Contribution are fixed and, except for the fixed margin difference of 0.15% between them, the coupons payable on the Capital Securities issued are matched by the Profit Participations receivable on the Silent Contribution. Accordingly, on a cash flow basis, the General Partner believes that there is no significant net interest rate risk to the Partnership and/or holders of the Capital Securities issued. In addition, due to the fact that, except for the fixed margin difference of 0.15% between them, the coupons payable on the Capital Securities issued are matched by the Profit Participations receivable on the Silent Contribution, the General Partner believes that there is no significant net interest rate risk to the Partnership on a fair value basis, with such risk being borne by the holders of the Capital Securities issued.

#### **MARKET RISK - CURRENCY RISK**

All of the Partnership's material financial assets and financial liabilities are denominated in Euro. Consequently, the General Partner believes that there is no significant net currency risk to the Partnership and/or holders of the Capital Securities issued.

#### **MARKET PRICE RISK**

In the opinion of the General Partner, 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 and vice versa. Consequently the Partnership is not exposed to any net market price risk.

## **RESPARCS FUNDING II LIMITED PARTNERSHIP**

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### **MANAGEMENT REPORT - (CONTINUED)**

#### **MARKET PRICE RISK - (CONTINUED)**

As previously stated, HCOB has issued a Termination Notice wherein HCOB has 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, and HCOB has estimated that the projected HGB (German GAAP) book values of Silent Contributions for Securities as of 31st December 2020 would be "less than 5%." Although, the Partnership has formally objected to the Termination Notice, it is possible that the Capital Securities will be redeemed at less than 5% of nominal value.

In the opinion of the General Partner, there are no other price risks that could reasonably be foreseen to affect the fair values of the Partnership's financial instruments.

#### **CREDIT RISK**

Credit risk arises from the risk that HCOB and affiliates may not repay all amounts due to the Partnership under the Silent Contribution, Contribution Agreement, Loan Agreement and/or Facility Agreement. On the basis that the Capital Securities issued by the Partnership are effectively limited recourse in commercial substance as the Partnership's main financial asset consists of the Silent Contribution issued by HCOB, 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.

As at 31st December 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) (2018: C(hyb)). HCOB has a long term credit rating from Moody's of Baa2 (2018: Baa2).

#### **LIQUIDITY RISK**

Due to the nature of the Partnership's operations, the General Partner considers the most significant cash outflow to be the payment of interest on the Capital Securities upon receipt of the Profit Participation, if any, and the payment of the Repayment Amount on the Termination Date, if applicable. Liquidity risk in this regard is mitigated to the extent that the timing of these cash outflows would fall due on the same dates as the cash inflows from the Profit Participation. All other operating expenses are paid either from the Partnership's own resources or through a Liquidity Facility with HCOB (for further details, please see note 8 to the financial statements) which is only repayable at the termination date of the Participation Agreement and all outstanding advances due are waived on a quarterly basis. The General Partner believes that this arrangement further mitigates any residual liquidity risk to the Partnership.

#### **OTHER RISK - CORONAVIRUS WORLDWIDE PANDEMIC (COVID-19)**

The risks facing the Partnership from the impact of COVID-19 are closely linked to those applicable to HCOB. HCOB stated the following in its annual report for the year ended 31st December 2019, as prepared under IFRS: "The economic implications of the coronavirus crisis could have a negative impact on HCOB's ability to meet its financial targets, although the uncertainty prevailing means that it is not yet possible to arrive at any concrete forecasts of the effects of the crisis. In principle, HCOB could be hit by negative effects on the level of its income, additions to loan loss provisions, non-performing loans and capital ratios/risk weighted assets.". It follows that the directors of the General Partner are currently unable to reliably forecast the impact of COVID-19 on the Silent Contribution held and Capital Securities issued. Therefore, any forward looking statements in this Management Report and accompanying financial statements are subject to significant uncertainty.



## **RESPARCS FUNDING II LIMITED PARTNERSHIP**

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### **MANAGEMENT REPORT - (CONTINUED)**

#### **RISK MANAGEMENT AND FINANCIAL REPORTING CONTROLS AND INTERNAL AUDIT SYSTEM**

The Partnership has been established for the sole purpose of entering into the transactions previously described (the "Partnership's business" i.e. the issuance of Capital Securities with the proceeds being used to acquire the Silent Contribution and entering into various ancillary agreements and arrangements). Under the terms of the Limited Partnership Agreement, the General Partner is unable to do anything other than for the purpose of the Partnership's business or to change the Partnership's business without first obtaining the Limited Partner's written consent.

As returns on the Capital Securities issued by the Partnership are dependent on the financial performance of HCOB, investors in the Capital Securities should refer to HCOB's Annual Report 2019 and any subsequent financial information published by HCOB for further information regarding the risks faced by HCOB and any controls employed by HCOB to mitigate such risks. The Partnership does not operate any risk management systems or internal control systems itself, nor does it operate an internal audit system. The Partnership relies upon the risk management systems, internal control systems and internal audit system of HCOB to mitigate the principal risks faced by HCOB.

The Partnership is controlled by the General Partner and relies upon the board of the General Partner to exercise control over the Partnership's activities. In turn, the Directors of the General Partner rely upon the Partnership's service providers to exercise control over the activities for which they have responsibility. The Partnership's accounting records, including its annual and interim financial statements, are maintained/prepared by its Administrator, Sanne Financial Services Limited (SFSL), which is a professional service provider that operates its own procedures and controls to ensure the accuracy of such accounting records/financial statements. SFSL is regulated by the Jersey Financial Services Commission.

#### **CAPITAL MANAGEMENT**

The Partnership's capital is represented by the balance on the partners' capital account. The Partnership's transactions are designed to enable the Partnership to pay its liabilities as they fall due, without realising a significant return on capital. This is the objective of the Partnership's capital management policy. The level of interest income receivable on the Silent Contribution and interest expense payable on the Capital Securities issued are fixed and were established on formation of the Partnership in order that the Partnership realises a margin that is sufficient to pay the ongoing operational expenses of the Partnership and any loan interest payable.

Where on-going expenses cannot be covered in the normal course as contemplated under the agreements, the Partnership has been granted a Liquidity Facility (for further details, please see note 8 to the financial statements). There were no changes in the Partnership's approach to capital management during the year. The Partnership is not subject to externally imposed capital requirements.

#### **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 below, confirm to the best of their knowledge that the audited financial statements for the year ended 31st December 2019 give a true and fair view of the assets, liabilities, financial position and loss of the Partnership as required by the applicable accounting standards. The Management Report gives a fair review of the development of the Partnership's business, financial position and the important events that have occurred during the year and their impact on the financial statements. The principal risks and uncertainties faced by the Partnership are disclosed in the Management Report.

**Signed for and on behalf of European Capital Investment Opportunities Limited in its capacity as General Partner of RESPARCS Funding II Limited Partnership:**



**J.N. Pendergast**

Date: 30th April 2020



**S.J. Hopkins**

# RESPARCS FUNDING II LIMITED PARTNERSHIP

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## BALANCE SHEET

AS AT 31ST DECEMBER 2019

	<u>Notes</u>	<u>31st Dec 19</u> €	<u>31st Dec 18</u> €
<b>ASSETS</b>			
<b>A. FIXED ASSETS</b>			
I. Financial assets			
1. Other loans	2	22,500,000	67,500,000
<b>B. CURRENT ASSETS</b>			
I. Receivables and other assets			
1. Trade receivables	3	2,250	-
2. Receivables from affiliated companies	3	1,004,933	536,935
II. Cash			
	4	170,932	171,120
		<u>1,178,115</u>	<u>708,055</u>
<b>TOTAL ASSETS</b>	€	<u>23,678,115</u>	€ <u>68,208,055</u>
<b>EQUITY AND LIABILITIES</b>			
<b>A. PARTNERS' EQUITY</b>			
I. General Partner's equity			
	5	-	-
II. Limited Partner's equity			
		-	134,803
<b>TOTAL PARTNERS' EQUITY</b>		<u>-</u>	<u>134,803</u>
<b>C. CREDITORS</b>			
1. Loans payable, of which nil is convertible			
	6	22,500,000	67,500,000
2. Trade creditors			
	7	276,669	35,720
3. Amounts owed to affiliated companies			
	8	901,446	537,532
<b>TOTAL CREDITORS</b>		<u>23,678,115</u>	<u>68,073,252</u>
<b>TOTAL EQUITY AND LIABILITIES</b>	€	<u>23,678,115</u>	€ <u>68,208,055</u>

*(The notes on pages 11 to 22 form part of these financial statements)*

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## RESPARCS FUNDING II LIMITED PARTNERSHIP

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### PROFIT AND LOSS ACCOUNT

#### FOR THE YEAR ENDED 31ST DECEMBER 2019

	<u>Notes</u>	<b>1st Jan 19 to 31st Dec 19 €</b>	<b>1st Jan 18 to 31st Dec 18 €</b>
<b>1. Other operating income</b>	9	45,650,686	131,072,400
<b>2. Other operating charges</b>		( 784,500)	( 234,000)
<b>3. Amounts written off on investments</b>	2	( 45,000,000)	( 130,811,704)
<b>4. Interest payable and similar charges</b>		( 989)	( 472)
<b>TOTAL EXPENDITURE</b>		( 45,785,489)	( 131,046,176)
<b>(LOSS)/PROFIT FOR THE YEAR</b>		€ ( 134,803) €	26,224

*(The notes on pages 11 to 22 form part of these financial statements)*

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## **RESPARCS FUNDING II LIMITED PARTNERSHIP**

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

#### **FOR THE YEAR ENDED 31ST DECEMBER 2019**

	<b>General Partner's equity</b>	<b>Limited Partner's equity</b>	<b>Total</b>
	<b>€</b>	<b>€</b>	<b>€</b>
Balance at 1st January 2019	-	134,803	134,803
- Loss for the year	-	( 134,803)	( 134,803)
Balance at 31st December 2019	-	-	-
Balance at 1st January 2018	-	108,579	108,579
- Profit for the year	-	26,224	26,224
Balance at 31st December 2018	-	134,803	134,803

*(The notes on pages 11 to 22 form part of these financial statements)*

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## RESPARCS FUNDING II LIMITED PARTNERSHIP

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### STATEMENT OF CASH FLOWS

#### FOR THE YEAR ENDED 31ST DECEMBER 2019

	<u>Notes</u>	<b>1st Jan 19 to 31st Dec 2019</b>	<b>1st Jan 18 to 31st Dec 2018</b>
		€	€
<b>Cash flows from business activities</b>			
1. (Loss)/profit for the year		( 134,803)	26,224
2. Amounts written off on investments	2	45,000,000	130,811,704
3. Decrease in estimated settlement amount on Capital Securities	6	( 45,000,000)	( 130,811,704)
4. Increase in trade receivables and receivables from affiliated companies	3	( 470,248)	( 57,209)
5. Increase/(decrease) in trade creditors	7	240,949	( 26,846)
6. Increase in amounts owed to affiliated companies	8	363,914	57,647
		<hr/>	<hr/>
<b>Net cash used in business activities</b>		( 188)	( 184)
		<hr/>	<hr/>
<b>Net decrease in cash and cash equivalents</b>		( 188)	( 184)
<b>Cash and cash equivalents at the beginning of the year</b>		171,120	171,304
		<hr/>	<hr/>
<b>Cash and cash equivalents at the end of the year</b>	4	€ 170,932	€ 171,120
		<hr/> <hr/>	<hr/> <hr/>

*(The notes on pages 11 to 22 form part of these financial statements)*

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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31ST DECEMBER 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 years 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 German GAAP. The financial statements have been prepared on the historical cost basis. The significant accounting policies used are set out below.

In prior years, the Partnership prepared its financial statements in accordance with International Financial Reporting Standards ("IFRS"), under which both the Silent Contribution and the Capital Securities were previously measured at fair value in the balance sheet.

**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 European Capital Investment Opportunities Limited (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 Management Report, 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. Upon redemption of the silent participation, Resparcs II would be likely to be obliged to redeem the Resparc II Securities and, subsequent to this, the Resparcs II structure would be likely to serve no further commercial purpose and would therefore be likely to be liquidated. However Resparcs II has objected to the redemption of the silent participation and therefore it is not yet certain that this will occur on 30 June 2021.

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**

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

**Non-mandatory new accounting requirements not yet adopted**

All non-mandatory new accounting requirements in issue are either not yet permitted to be adopted or, in the General Partner's opinion, would have no material effect on the reported performance, financial position, or disclosures of the Partnership and consequently have neither been adopted, nor listed.

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

**FOR THE YEAR ENDED 31ST DECEMBER 2019**

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

**Assets measured at amortised cost: Financial assets; Receivables and other assets; and, cash**

The Partnership's "Financial assets" comprise its Other loans, being the investment in the Silent Contribution. The Partnership's "Receivables and other assets" comprise: (i) Trade receivables; and (ii) Receivables from affiliated companies which, in turn, comprise the amounts receivable from Limited Partner in respect of withholding tax receivable; and, amounts receivable from HCOB under Compensation Agreement. The Partnership's "Cash" comprises its deposit account at HCOB.

*Recognition:* the Partnership recognises such assets when it becomes a party to the contractual provisions of the relevant instrument; such assets are derecognised when the rights to receive cash flows have expired or the Partnership has transferred substantially all risks and rewards of ownership.

*Initial measurement:* the Partnership initially measures such assets at cost.

*Subsequent measurement:* the Partnership subsequently measures such assets at amortised cost using the effective interest method less any allowance for impairment, if any. Gains and losses are recognised in profit or loss when such assets are derecognised or impaired, and through the amortisation process.

**Impairment**

Where the expected recoverable value of an asset falls below the amortised cost of that asset and the decrease in recoverable value is not considered to be temporary, an impairment is recognised and the asset is measured at its estimated net realisable value.

*Financial assets - Other loans - Silent Contribution - impairment*

The expected recoverable value of the Silent Contribution has been lower than its amortised cost for a prolonged period. Consequently, the Partnership has recognised an impairment as at the reporting date and previously.

In the opinion of the directors of the General Partner, the best available prudent estimate of the net realisable value as at 31 December 2017 was the book value as at that date as announced by HCOB in accordance with HCOB's own financial statements.

As at 31st December 2018, HCOB had recently announced that HCOB anticipated that the Silent Contribution would be likely to be redeemed at less than 15% of its nominal value. As at 31st December 2018, the General Partner was unable to obtain any further reliable information regarding this estimate (i.e. how much lower than 15% the Silent Contribution would be likely to be redeemed at). In the absence of any other reliable method being available, the directors of the General Partner estimated that the projected redemption value could be reasonably expected to be approximately 10% lower than 15% (i.e. 1.5% of nominal value lower than 15% of nominal value). Consequently, in the opinion of the directors of the General Partner, the best available prudent estimate of the net realisable value as at 31st December 2018 was calculated using HCOB's projected value as being 13.5% of nominal value.

As at 31st December 2019, HCOB had recently announced that HCOB anticipated that the Silent Contribution would be likely to be redeemed at less than 5% of its nominal value. As at 31st December 2019, the General Partner was unable to obtain any further reliable information regarding this estimate (i.e. how much lower than 5% the Silent Contribution would be likely to be redeemed at). In the absence of any other reliable method being available, the directors of the General Partner estimated that the projected redemption value could be reasonably expected to be approximately 10% lower than 5% (i.e. 0.5% of nominal value lower than 5% of nominal value). Consequently, in the opinion of the directors of the General Partner, the best available prudent estimate of the net realisable value as at 31st December 2019 was calculated using HCOB's projected value as being 4.5% of nominal value.

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

**FOR THE YEAR ENDED 31ST DECEMBER 2019**

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

**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.

**Partners' equity**

Partners' equity comprises the General Partner's equity and the Limited Partner's equity. The profits and losses of the Partnership shall belong to or be borne by the Partners in their respective Partnership Shares (see note 5 for further details) subject to the fact that the total liability of the Limited Partner shall not exceed the Capital Contribution of the Limited Partner. Such profits and losses are classified as equity instruments when:

- The respective Partnership Shares entitle the holder to a pro rata share of the Fund's net assets in the event of the Fund's liquidation;
- The respective Partnership Shares are in the class of instruments that is subordinate to all other classes of instruments;
- The respective Partnership Shares do not include any contractual obligation to deliver cash or another financial asset other than the holder's rights to a pro rata share of the Fund's net assets; and,
- The total expected cash flows attributable to the respective Partnership Shares over the life of the instrument are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Fund over the life of the instrument.

*Recognition:* the Partnership recognised each Partners' equity upon formation of the Partnership and will derecognise each Partners' equity upon dissolution of the Partnership.

*Initial measurement:* the Partnership initially measured each Partners' equity at the amount each Partner contributed to the Partnership.

*Subsequent measurement:* the Partnership subsequently measures each Partners' equity at the amount of each Partner's respective share of the profits and losses of the Partnership.

**Liabilities measured at amortised cost: Creditors**

The Partnership's "Creditors" comprise: (i) its Loans payable, of which nil is convertible, being the Capital Securities issued; (ii) Trade creditors which, in turn, comprise the items detailed in note 7; (iii) Amounts owed to affiliated companies which, in turn, comprise: the Support Undertaking fee payable to HCOB Luxembourg Branch; and, the Liquidity Facility drawn down, including accrued interest payable.

*Recognition:* the Partnership recognises such liabilities when it becomes a party to the contractual provisions of the relevant instrument or immediately when an obligation arises from a past event where the commitment is probable and a reliable estimate of the liability can be made. Such liabilities are derecognised when the obligation is discharged, cancelled or expires.

*Initial measurement:* the Partnership initially measures such liabilities at at the estimated settlement amount.

*Subsequent measurement:* the Partnership subsequently measures such liabilities at the estimated amount required to settle the obligation. Interest expense, if any, is recognised in profit or loss and Gains and losses are recognised in profit or loss when such liabilities are derecognised.

**Creditors - Loans payable - Capital Securities issued**

The General Partner has considered the characteristics of the Capital Securities issued and considers that the most appropriate classification of these securities is as financial liabilities. Accordingly, the Capital Securities are presented in the balance sheet under the heading Loans payable, of which nil is convertible.



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

**FOR THE YEAR ENDED 31ST DECEMBER 2019**

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

**Creditors - Loans payable - Capital Securities issued - (continued)**

The terms of the Capital Securities are identical in all material respects to those of the Silent Contribution, 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. However, in the Directors' opinion, as no interest is currently payable or receivable on either of these financial instruments and is unlikely to be payable or receivable for the foreseeable future, the settlement amount payable on the Capital Securities is estimated to be approximately equal and opposite to the settlement value of the Silent Contribution. Therefore, in the opinion of the directors of the General Partner, the estimated settlement value of the Silent Contribution represents the best available objective estimate of the estimated settlement value of the Capital Securities.

**Foreign currencies**

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 financial statements are presented in Euro.

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 year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

**Employees**

The Partnership had no employees during the year (2018: none).

**Profit Participation income**

Profit Participation income is accounted for on an accrual basis using the effective interest rate method.

**Interest expense**

Interest expense on Capital Securities issued and loans payable are accounted for on an effective interest rate

**German withholding tax**

Profit Participation income is received net of German withholding tax ("WHT"). The Partnership is refunded the amount of any WHT deducted under the Contribution Agreement and 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 a single operating segment which generates all of its revenues from HCOB in Germany.

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.

**NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)****FOR THE YEAR ENDED 31ST DECEMBER 2019****2. FINANCIAL ASSETS - OTHER LOANS****Silent capital interest in the commercial enterprise of HCOB ("Silent Contribution")**

	<u>31st Dec 19</u>	<u>31st Dec 18</u>
Opening balance	67,500,000	198,311,704
Impairment during the year	( 45,000,000)	( 130,811,704)
Closing balance	<u>€ 22,500,000</u>	<u>€ 67,500,000</u>
Notional amount outstanding at the year end	<u>€ 500,000,000</u>	<u>€ 500,000,000</u>

On 28th May 2003, the Partnership acquired a Silent Contribution in the commercial enterprise (Handelsgewerbe) of Landesbank Schleswig-Holstein Girozentrale ("LB Kiel") with retroactive effect as of 1st January 2003. The Silent Contribution 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 the profit and loss account.

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.

The Silent Contribution is a perpetual instrument which will only be repaid to the Silent Partner after termination of the Participation Agreement by HCOB. As stated in the Offering Circular dated 28th May 2003, 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. However, HCOB has issued a Termination Notice wherein HCOB has 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, and HCOB has estimated that the projected HGB (German GAAP) book values of Silent Contributions for Securities as of 31st December 2020 would be "less than 5%." The Partnership has formally objected to the Termination Notice.

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

**RESPARCS FUNDING II LIMITED PARTNERSHIP****NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)****FOR THE YEAR ENDED 31ST DECEMBER 2019**

<b>3. RECEIVABLES AND OTHER ASSETS</b>	<b><u>31st Dec 19</u></b>	<b><u>31st Dec 18</u></b>
<b>Trade receivables</b> - receivable within one year:		
Other receivables	2,250	-
	<hr/>	<hr/>
<b>Receivables from affiliated companies</b>		
Receivable in more than one year:		
Amounts receivable from Limited Partner in respect of withholding tax receivable	656,399	533,140
Receivable within one year:		
Amounts receivable from HCOB under Compensation Agreement	348,534	3,795
	<hr/>	<hr/>
	1,004,933	536,935
	<hr/>	<hr/>
	€ 1,007,183	€ 536,935
	<hr/> <hr/>	<hr/> <hr/>

As no income has been received from the Silent Contribution since 2009, the Partnership relies on the Liquidity Facility to fund ongoing operational costs and expenses. To rectify this situation, the Partnership entered into a Compensation 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.

<b>4. CASH AND CASH EQUIVALENTS</b>	<b><u>31st Dec 19</u></b>	<b><u>31st Dec 18</u></b>
HCOB - EUR accounts	€ 170,932	€ 171,120
	<hr/> <hr/>	<hr/> <hr/>

**5. PARTNERS' EQUITY**

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 (as amended).

**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%.

**6. LOANS PAYABLE, OF WHICH NIL IS CONVERTIBLE**

<b>Capital Securities issued - RESPARC Securities</b>	<b><u>31st Dec 19</u></b>	<b><u>31st Dec 18</u></b>
Opening balance	67,500,000	198,311,704
Decrease in estimated settlement amount	( 45,000,000)	( 130,811,704)
	<hr/>	<hr/>
Closing balance	€ 22,500,000	€ 67,500,000
	<hr/> <hr/>	<hr/> <hr/>
Notional amount outstanding at the year end	€ 500,000,000	€ 500,000,000
	<hr/> <hr/>	<hr/> <hr/>

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

**FOR THE YEAR ENDED 31ST DECEMBER 2019**

**6. LOANS PAYABLE, OF WHICH NIL IS CONVERTIBLE - (CONTINUED)**

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.

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 8. The holders of the Capital Securities issued are therefore also exposed to the risk of default of HCOB Luxembourg Branch.

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.

**NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)****FOR THE YEAR ENDED 31ST DECEMBER 2019****6. LOANS PAYABLE, OF WHICH NIL IS CONVERTIBLE - (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 Contributions for Securities as of 31st December 2020 are currently expected to be well below 10%."

On 19th December 2019, HCOB announced that it had agreed a settlement with holders of Capital Securities represented by Quinn Emanuel Urquhart & Sullivan (QE) whereby HCOB would buy back the relevant Capital Securities at a settlement price of 36.24% of the nominal value plus a settlement fee of 1.0% of the nominal value. HCOB also announced that it would offer to buy back all other remaining Capital Securities at the same settlement price of 36.24% of the nominal value.

Also on 19th December 2019, HCOB announced within both its institutional and retail invitations to holders of the outstanding EUR500,000,000 RESPARC Securities that HCOB estimated that the projected HGB (German GAAP) book values of Silent Contributions for Securities as of 31st December 2020 would be "below 5%".

HCOB had acquired EUR369,927,000 (or 74.0%) of the outstanding nominal amount of the Capital Securities as at 31st December 2019 and EUR454,607,000 (or 90.9%) of the outstanding nominal amount of the Capital Securities as at the date of approval of these financial statements.

**7. TRADE CREDITORS**

	<u>31st Dec 19</u>	<u>31st Dec 18</u>
Trade creditors (all due within one year):		
Administrative penalty imposed by BaFin	98,700	-
Administration fees payable	80,646	17,530
Audit fee payable - PwC Jersey	40,537	17,633
Audit fee payable - PwC Germany	55,000	-
Transaction fee payable	886	557
Other payable	900	-
	<u>€ 276,669</u>	<u>€ 35,720</u>

As explained in note 2, there has been no Profit Participation income receivable during the year ended 31st December 2019. 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 2019 in respect of interest payable.

## RESPARCS FUNDING II LIMITED PARTNERSHIP

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

#### FOR THE YEAR ENDED 31ST DECEMBER 2019

<b>8. AMOUNTS OWED TO AFFILIATED COMPANIES</b>	<b><u>31st Dec 19</u></b>	<b><u>31st Dec 18</u></b>
Support Undertaking fee payable to HCOB Luxembourg Branch	€ 30,667	€ 30,333

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.

	<b><u>31st Dec 19</u></b>	<b><u>31st Dec 18</u></b>
Liquidity Facility drawn down, including accrued interest payable	€ 870,779	€ 507,199

The Partnership was originally granted a Liquidity Facility by HCOB Luxembourg Branch 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%.

	<b><u>31st Dec 19</u></b>	<b><u>31st Dec 18</u></b>
Total amounts owed to affiliated companies	€ 901,446	€ 537,532

<b>9. OTHER OPERATING INCOME</b>	<b><u>31st Dec 19</u></b>	<b><u>31st Dec 18</u></b>
Decrease in estimated settlement amount on Capital Securities - Impairment	45,000,000	130,811,704
Income from HCOB under Compensation Agreement	650,686	260,696
	€ 45,650,686	€ 131,072,400

<b>10. OTHER OPERATING CHARGES</b>	<b><u>31st Dec 19</u></b>	<b><u>31st Dec 18</u></b>
	€	€
Other operating charges include the following:		
Amount repayable to HCOB under Compensation Agreement	56,862	-
Support undertaking fees payable to HCOB Luxembourg Branch	121,333	121,333
Management and Administration fees payable to SANNE	226,559	65,065
Audit fees - PwC Channel Islands	38,995	17,680
Audit fees - PwC Germany	55,000	-
Expenses paid on behalf of General Partner and Trust	25,965	24,473

## **RESPARCS FUNDING II LIMITED PARTNERSHIP**

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

#### **FOR THE YEAR ENDED 31ST DECEMBER 2019**

#### **11. TAXATION**

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

#### **12. 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 5, the General Partner's Partnership Share is 0.01% and the Limited Partner's Partnership Share is 99.99%. For accounting purposes only, HCOB is considered to be the ultimate controlling party of Partnership.

#### **13. 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 Sanne Group PLC and all of its subsidiaries and affiliates ("Sanne Group"). Each of S.J. Hopkins and J.N. Pendergast is an employee of SFSL and should be regarded as interested in any transaction with any member of the Sanne Group.

The Partnership is included in the IFRS consolidated financial statements of HCOB, which prepares the consolidated financial statements for the largest group of companies in which the Partnership is included. The consolidated financial statements of Hamburg Commercial Bank AG are published in the electronic Federal Gazette in accordance with statutory requirements. Therefore HCOB and its affiliates are considered as related parties in all transactions.

Fees incurred with Sanne Group during the year in respect of administration and management fees are disclosed on the face of the Statement of Comprehensive Income. Fees owed at the year end are disclosed in note 7 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, 8, 12 and 17.

Expenses paid on behalf of the General Partner and the Limited Partner and their respective holding entities during the year are also disclosed on the face of the profit and loss account.

#### **14. FINANCIAL INSTRUMENTS**

As stated in the Management Report, 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.

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

**FOR THE YEAR ENDED 31ST DECEMBER 2019**

**15. CAPITAL MANAGEMENT**

The Partnership's transactions are designed to enable the Partnership to pay its liabilities as they fall due only, without realising a significant return on capital. The level of interest income receivable on the Silent Contribution and interest expense payable on the 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.

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 year.

The Partnership is not subject to externally imposed capital requirements.

**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 paid to Sanne Group during the year amounted to £4,000 (2018: £4,000).

**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 €650,686 (2018: €260,696).

**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.



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

**FOR THE YEAR ENDED 31ST DECEMBER 2019**

**19. SUBSEQUENT EVENTS**

The current worldwide Coronavirus outbreak commenced in China shortly prior to the reporting date, being notified to the World Health Organisation (“WHO”) by China on 31st December 2019, and the situation has continued to evolve throughout the period since the reporting date, being declared by the WHO as a Public Health Emergency of International Concern on 30th January 2020 and as a worldwide pandemic on 11th March 2020.

HCOB disclosed in its 2019 financial report that the economic implications of the Coronavirus outbreak could have a negative impact on HCOB's ability to meet its financial targets, although the prevailing uncertainty prevents HCOB from estimating any reliable forecasts of the effects of the Coronavirus outbreak.

In the opinion of the Directors, although the Coronavirus outbreak may have a material adverse impact on the assets, it is not likely to have a material adverse effect on the overall financial position and/or net results of the Partnership due to the fact that the Partnership has attempted to match the properties of its financial liabilities to those of its financial assets to mitigate significant elements of risk generated by mismatches of investment performance caused by market risks and/or any other risks such as credit risks against its obligations. Accordingly, the risks associated with the Partnership's financial assets and financial liabilities are ultimately borne by the holders of the Capital Securities.

No adjustment has been made in these financial statements for the impact of the Coronavirus outbreak on the Partnership's financial assets or financial liabilities as, in the General Partners' opinion, the conditions (i.e. worldwide pandemic) that may have a material impact thereon did not exist as at 31st December 2019.

As the General Partner believes that the Coronavirus outbreak is not likely to have a material adverse effect on the overall financial position and/or net results of the Partnership, the Coronavirus outbreak has had no material impact on the General Partner's going concern assessment. Consequently, these financial statements have been prepared on a going concern basis.

On 9 March 2020, BaFin (the regulator in Germany, which is the Partnership's EU Home Member State) imposed an administrative penalty on the Partnership of €94,000 plus costs of €4,700 in respect of the delayed publication of the Partnerships annual report and financial statements for the year ended 31 December 2015. Settlement of this penalty was covered under the Compensation Agreement with HCOB; consequently, this penalty had no net effect on the financial position of the Partnership.

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

**The financial statements on pages 7 to 22 were approved and authorised for issue by the Board of European Capital Investment Opportunities Limited in its capacity as General Partner of RESPARCS Funding II Limited on 30th April 2020 and were signed on its behalf by:**



**J.N. Pendergast**



**S.J. Hopkins**

**INDEPENDENT AUDITOR'S REPORT**

To RESPARCS Funding II Limited Partnership, Jersey

*Audit Opinions*

We have audited the annual financial statements of RESPARCS Funding II Limited Partnership, Jersey, which comprise the balance sheet as at 31 December 2019, and the statement of profit and loss, the cash flow statement and the statement of changes in equity for the financial year from 1 January to 31 December 2019 and notes to the financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the management report of RESPARCS Funding II Limited Partnership for the financial year from 1 January to 31 December 2019.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the accounting requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2019 and of its financial performance for the financial year from 1 January to 31 December 2019 in compliance with German Legally Required Accounting Principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to § [Article] 322 Abs. [paragraph] 3 Satz [sentence] 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

*Basis for the Audit Opinions*

We conducted our audit of the annual financial statements and of the management report in accordance with § 317 HGB in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the management report.

*Responsibilities of the Executive Directors and the General Partner for the Annual Financial Statements and the Management Report*

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the accounting requirements of German commercial law, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The general partner is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

*Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report*

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in

particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Hamburg, April 30 2020

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