INDEPENDENT AUDITOR'S REPORT

To HCOB Funding II, Grand Cayman

Opinion

We have audited the financial statements of HCOB Funding II (formerly: HSH N Funding II), Grand Cayman (the Company), which comprise the statement of financial position as at December 31, 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as issued by the IASB.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Germany, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In our view, the matter of most significance in our audit was as follows:

❶ Valuation of the silent contribution

Our presentation of these key audit matters has been structured in each case as follows:

① Matter and issue

② Audit approach and findings

③ Reference to further information

Hereinafter we present the key audit matters:

❶ Valuation of the silent contribution

① In the financial statements of the Company, a silent contribution of nominal USD 500,000,000 is reported in the statement of financial position as a financial asset at an amount of USD 266,829,834 as at December 31, 2019. At the end of 2018 the issuer terminated the silent participation agreement with effect of 31 December 2020. As a result of this, the silent contribution will be repaid no later than financial year 2021 in accordance with the contractual terms and conditions. The silent contribution is categorised as fair value through profit or loss under IFRS 9 and measured at fair value. There is no active market for the silent contribution. If a fair value cannot be determined from the market or transaction prices of a financial instrument, under IFRS it is derived from the prices of similar financial instruments in active markets (where available). The fair value of the silent contribution is determined by the Company based on the price of the SPHERE securities which are listed on the Stock Exchange in Amsterdam as the terms of the silent contribution are identical in all material respects to those of the SPHERE Securities so that the fair value is estimated to be approximately equal. Therefore - in the view of management - the quoted market price of the SPHERE Securities represents the best available objective estimate of the fair value of the silent contribution, subject to adjustments for the fair value of the accrued interest that is determined by discounting cash flow taking into account rating-related spreads.

Since the silent contribution makes up more than one third of the assets of the Company and the methods and assumptions applied to determine the fair value of this financial asset require significant judgement and estimation by management , this matter was of particular significance for our audit.

② As part of our audit, we assessed the appropriateness of the valuation model used to determine the fair value of the silent contribution. We independently corroborated the fair value of the Sphere Securities to the quoted market prices at the respective exchanges.

We obtained an understanding of the circumstances around the termination of the silent contribution agreement and the uncertainties created by the legal claims against the issuer of the silent contribution insofar as they could have an impact on the key inputs used in the determination of the fair value as at 31 December 2019.

We evaluated the determination of the fair value by management under consideration of the above mentioned circumstances. In our view the fair value determined for the silent contribution is within a range that we consider to be acceptable.

③ The company's disclosures relating to the fair value determination of the silent contribution are detailed in section 2 ('Significant Accounting Policies') and section 8 ('Disclosure of Fair Values in Accordance with IFRS 7') in the notes to the financial statements.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as issued by the IASB, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. 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 financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, 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 opinion. 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 control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's 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 our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. 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 continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor’s report is Lothar Schreiber.

General Terms of Engagement

We issue this report on the basis of the engagement agreed with HCOB Funding II, Grand Cayman, which comprises the attached General Terms of Engagement for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften as of January 1, 2017, which are also applicable to other third parties.

Hamburg, April 30, 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

signed Lothar Schreiber	signed ppa Tim Brücken
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Financial Statements of

HCOB Funding II (formerly, HSH N Funding II)

December 31, 2019

HCOB Funding II (formerly, HSH N Funding II)

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HCOB Funding II (formerly, HSH N Funding II)

Statement of Financial Position

As at December 31, 2019
(stated in United States dollars)

	Note	2019	2018
Assets			
Silent Contribution	3,7,8	266,829,834	293,253,768
Loan receivable	4,7,8	552,627,872	538,074,694
Interest receivable	4,7,8	–	9,069,200
Cash and cash equivalents	7,8	45,549,594	203,594
Total assets	US$	**865,007,300**	**840,601,256**
Liabilities and Equity			
Liabilities			
Class B preference shares	5,8	177,750,000	209,035,000
Other liabilities		1,528	1,528
		177,751,528	209,036,528
Equity			
Share capital	6	10,000	10,000
Class A preference shares	6	645,034,000	645,034,000
Retained earnings/(Accumulated losses)		42,211,772	(13,479,272)
		687,255,772	631,564,728
Total liabilities and equity	US$	**865,007,300**	**840,601,256**

See accompanying notes to financial statements.

Approved on behalf of the Board of Directors on April, 28, 2020

______________________Director

______________________Director

HCOB Funding II (formerly, HSH N Funding II)

Statement of Comprehensive Income

For the year ended December 31, 2019
(stated in United States dollars)

	Note	2019	2018
Income			
Interest income on loan receivable	7	36,276,800	36,276,800
Net change in fair value of financial liabilities		31,285,000	51,025,000
Net change in fair value of financial assets		(26,423,934)	32,840,160
		41,137,866	120,141,960
Finance costs			
(Reversal)/Impairment on loan receivable		(14,553,178)	1,054,935
		(14,553,178)	1,054,935
Net income for the year	US$	55,691,044	119,087,025

See accompanying notes to financial statements.

HCOB Funding II (formerly, HSH N Funding II)

Statement of Changes in Equity

For the year ended December 31, 2019
(stated in United States dollars)

		Note	Share Capital	Class A Preference Shares	(Accumulated losses)/ Retained earnings	Total
Balance at January 1, 2018	US$		10,000	645,034,000	(96,289,497)	548,754,503
Net income for the year			–	–	119,087,025	119,087,025
Class A dividend paid			–	–	(36,276,800)	(36,276,800)
Balance at January 1, 2019	US$		10,000	645,034,000	(13,479,272)	631,564,728
Net income for the year			–	–	55,691,044	55,691,044
Balance at December 31, 2019	US$		10,000	645,034,000	42,211,772	687,255,772

See accompanying notes to financial statements.

HCOB Funding II (formerly, HSH N Funding II)

Statement of Cash Flows

For the year ended December 31, 2019
(stated in United States dollars)

		2019	2018
Cash Flows from Operating Activities			
Net income for the year		55,691,044	119,087,025
Adjust for non-cash items:			
(Reversal)/impairment on loan receivable		(14,553,178)	1,054,935
Net change in fair value of financial assets		26,423,934	(32,840,160)
Net change in fair value of financial liabilities		(31,285,000)	(51,025,000)
Movement in:			
Interest receivable		9,069,200	–
Net cash provided by operating activities		45,346,000	36,276,800
Cash Flows from Financing Activities			
Class A dividends		–	(36,276,800)
Net cash used in financing activities		–	(36,276,800)
Net increase in cash and cash equivalents		45,346,000	–
Cash and cash equivalents at beginning of year		203,594	203,594
Cash and cash equivalents at end of year	US$	45,549,594	203,594
Supplementary information on cash flows from operating activities:			
Interest received		45,346,000	18,138,400

See accompanying notes to financial statements.

1. Incorporation and background information

HCOB Funding II (formerly HSH N Funding II) (the "Company") was incorporated on May 26, 2005 as an exempted company with limited liability under the laws of the Cayman Islands for the purpose of carrying on business as an investment company. The Company is a wholly owned subsidiary of Hamburg Commercial Bank AG (formerly HSH Nordbank AG) (the "Bank"). The financial results of the Company are consolidated by the Bank.

On February 4, 2019, the Company changed its name from HSH N Funding II to HCOB Funding II.

The objectives for which the Company has been established are limited by its Memorandum of Association to entering into transaction documents and exercising its rights and performing its obligations in connection therewith.

The Company issued 500,000 Class B preference shares in the aggregate nominal amount of US$500,000,000 to Banque de Luxembourg, a société anonyme incorporated in Luxembourg (the "Fiduciary") and used the proceeds to acquire a silent capital interest in the commercial enterprise (*Handelsgewerbe*) (the "Participation") of the Bank in the form of a *Stille Gesellschaft* pursuant to an agreement providing for an asset contribution to the Bank in the amount of US$500,000,000 (the "Silent Contribution") and dated June 17, 2005 (the "Participation Agreement").

The Fiduciary financed the purchase of Class B preference shares with proceeds from issuance of US$500,000,000 HSH Nordbank Silent Participation Hybrid Equity Regulatory (SPHERE) Securities in the denomination of US$1,000 (the "SPHERE Securities") on a fiduciary basis at 100% of the principal amounts. The Fiduciary acquired the Class B preference shares at the sole risk of the holders of the SPHERE Securities. The SPHERE Securities are listed on the Euronext Amsterdam Exchange. The Bank has entered into a support undertaking agreement with the Fiduciary that the Company will at all times be in a position to meet its dividend obligations under the Class B preference shares if and when due as contemplated in the Company's Memorandum and Articles of Association.

On December 10, 2018, the Bank issued notice of termination of the Participation Agreement funded by the issuance of the Class B preference shares. As a consequence of the purported termination and assuming that the notice is valid, the Silent Contribution would be required to be repaid by the Bank on June 30, 2021. The repayment amount would be the book value of the Silent Contribution as determined in the Bank's balance sheet for its fiscal year 2020. We understand that the Bank expects that the amount to be repaid is likely to be significantly lower than the nominal amount and that no coupon payments will be made in the interim period.

During December 2019, the Bank announced an invitation to holders of the SPHERE Securities to offer their securities for purchase by the Bank, at a premium to estimated book value as of December 31, 2020 and to avoid the uncertainties relating to the actual repayment amount due upon termination. In the context of that invitation, the Bank estimated the December 31, 2020 value to be below 5% of the nominal value.

1. Incorporation and background information (continued)

Pursuant to the terms and conditions of the SPHERE Securities, the termination of the Participation Agreement will result in the redemption of the Class B preference shares and in the redemption of the SPHERE Securities on the repayment date of the Silent Contribution.

The Directors previously noted their understanding that certain underlying investors in the SPHERE Securities (the "Claimants") had taken legal action against the Bank in the Kiel Regional Court, Germany, and that if the Claimants were successful, the Company's financial statements could be materially impacted.

The Directors are advised by the Company's German legal counsel that the proceedings in Germany have subsequently been terminated and that a settlement agreement has been entered into, pursuant to which the Claimants waived all of their rights not only against the Bank but also against all issuers, including the Company.

Going concern

The ability of the Company to continue as a going concern is directly linked to the same assumption being applicable at the Bank level. The financial accounting and measurement in these financial statements is based on the assumption that the Bank is a going concern.

In view of the Company's limited purpose as an investment vehicle, the going concern assumption is also to some extent linked to the existence of the Silent Contribution. As noted above, the Bank issued notice of termination of the Participation Agreement and as a consequence the Silent Contribution would be required to be repaid by the Bank on June 30, 2021.

2. Significant accounting policies

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRSs"). The accounting policies have been applied consistently by the Company. Significant accounting policies and their effect on the financial statements are as follows.

(a) Use of estimates

The preparation of financial statements in accordance with IFRSs requires management to make estimates and assumptions that affect the application of accounting policies and the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the period. Actual results could differ from those estimates. The disclosures in accordance with IAS 1.125 are made (additionally to the information provided in this note) in notes 3, 4, 5, 8 and 9.

(b) Profit participation under the Participation Agreement, interest income, Class B dividends and Class A dividends

Profit participation under the Participation Agreement and interest income are recognised on an accruals basis. Class A and Class B dividends are recognised in accordance with the Articles of Association.

2. Significant accounting policies (continued)

(c) IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaced IAS 39 Financial Instruments: Recognition and Measurement.

(i) Classification

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset, or to exchange financial instruments with another enterprise under conditions that are potentially favorable or an equity instrument of another enterprise. Financial assets comprise cash and cash equivalents, interest receivable, Silent Contribution and loan receivable.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset or to exchange financial instruments with another enterprise under conditions that are potentially unfavorable. Financial liabilities comprise Class B preference shares and other liabilities.

Financial assets that are classified as loans and receivables include cash and cash equivalents and loan receivable.

(ii) Recognition

The Company recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

(iii) Measurement

Financial instruments are measured initially at the fair value of the consideration given or received. All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and profit on the principal amount outstanding, are subsequently measured at amortised cost.

All financial instruments classified as fair value through profit or loss are measured at fair value. IFRS 9 requires that the changes in the fair value of the financial liability that are attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognised.

2. Significant accounting policies (continued)

(c) IFRS 9 Financial instruments (continued)

(iii) Measurement (continued)

Financial liabilities that are not held for trading and are not designated as at fair value through profit or loss are measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on settlement.

The related net income or expense is recognised in the statement of comprehensive income.

(iv) Determination of Fair Values

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. The Company 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 company's perceived risk inherent in such financial instrument. Transfers between levels in the fair value hierarchy would be applied as at the end of each reporting period, if applicable.

2. Significant accounting policies (continued)

(c) IFRS 9 Financial instruments (continued)

(iv) Determination of Fair Values (continued)

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.

(v) Derecognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial asset.

The Company uses the specific identification method to determine gains or losses on derecognition for financial assets that are sold.

(vi) Loan loss provisions and Impairment of financial assets

The scope of the IFRS 9 model for calculating loan loss provisions/impairments consistently includes all financial assets that are recognised at amortised cost.

For all financial instruments that fall under the scope of the loan loss provisions model under IFRS 9.5.5.1, the basic principle involves setting up loan loss provisions depending on the change in the credit quality of the financial instrument concerned. This model only applies to financial instruments which are not impaired at the time of initial recognition. At the time of initial recognition, these financial instruments are assigned to stage 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 stages as part of the subsequent measurement process:

a. Stage 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. Stage 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. Stage 3: Financial assets that are credit-impaired, lifetime expected loss

2. Significant accounting policies (continued)

(c) IFRS 9 Financial instruments (continued)

(vi) Loan loss provisions and Impairment of financial assets (continued)

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 stage 3. The expected credit losses over the entire remaining term to maturity of the financial instrument are recognised for these financial instruments as well.

Expected credit losses are calculated at stages 1 and 2 based on the following credit risk parameters:

- Probability of default (PD)
- Loss given default (LGD)
- Exposure at default (EAD)

With regards to the loan agreement the Company has entered into with the Bank, the external rating of the Bank is mapped onto its internal credit risk models which – where necessary – are adjusted for the purposes of IFRS 9. The rating models used by the Bank have been developed based on the definition of "default" set out in Art. 178 CRR and are validated by the Bank in this respect on a regular basis.

Any necessary adjustments/expansions of the existing models relate primarily to the use of methods for multiannual estimates. Within this context, the Bank uses PD profiles based on migration matrices for its multiannual estimates. These reflect the observed rating migrations from debtors within a year and are calculated based on an extensive cross-economic historical observation period. The forward projection of the LGD over the multiannual 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 multiannual 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 reporting date is based on the effective interest rate in each case.

The loan loss provisions are generally calculated at the stage of the individual financial instrument.

2. Significant accounting policies (continued)

(c) IFRS 9 Financial instruments (continued)

(vi) Loan loss provisions and Impairment of financial assets (continued)

A financial instrument is transferred (back) from stage 2 to stage 1 if the loan default risk is no longer significantly increased based on the rating. In cases involving modified financial instruments, however, a good conduct period is set, during which the financial instrument remains in stage 2. This corresponds to the good conduct period for forbearance.

In the 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. Changes in the gross carrying amount result from interest claims. These claims increase the gross carrying amount and, as a result, the loan loss provisions. This increase is to be recognised with no effect on profit and loss. The collection of the interest for credit-impaired instruments, which is recognised through profit or loss, is based on the net carrying amount.

(vii) Specific instruments

Cash and cash equivalents
For the purposes of the statement of cash flows, cash and cash equivalents include current accounts with original maturities of three months or less.

Silent Contribution
The investment in the Silent Contribution is not held for trading purposes. It is measured initially at the fair value of the consideration given and subsequently measured at and presented in the statement of financial position at fair value. The Silent Contribution is remeasured in accordance with the requirements of IFRS 9. The inputs for the calculation of the Silent Contribution are based upon observable market data and accordingly the asset is categorised as a level 2 investment in the fair value hierarchy.

Loan receivable
Loan receivable is measured at amortised cost, being the amount at which the loan receivable is measured at initial recognition minus principal repayments, and minus any write down for impairment or uncollectibility. The loan receivable is interest bearing with interest income being recognised in the statement of comprehensive income.

Class B preference shares
Class B preference shares are classified as a financial liability according to IAS 32.11 (a) and measured at fair value through profit or loss (note 2(c)(iii)). Dividends on Class B preference shares are recognised as interest expense in the statement of comprehensive income as accrued.

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(vii) Specific instruments (continued)

Class B preference shares (continued)
According to IFRS 9, embedded derivatives shall not be separated from the host contract and accounted for as a derivative if the value of the derivative would change in response to a non-financial variable that is specific to a party. The value of the Class B preference shares vary in response to a non-financial variable linked to the performance of the Bank.

3. Silent Contribution

The Company acquired a silent capital interest in the aggregate amount of US$ 500,000,000 (2018: US$500,000,000) in the commercial enterprise of the Bank in the form of the Participation pursuant to the Participation Agreement dated June 17, 2005, providing for an asset contribution to the Bank in the amount of US$500,000,000 (2018: US$500,000,000).

On December 10, 2018, the Bank issued notice of termination of the Participation Agreement funded by the issuance of Class B preference shares. As a consequence of the purported termination the Silent Contribution will be required to be repaid by the Bank on June 30, 2021 in accordance with the terms of the Participation Agreement. Pursuant to terms of the Participation Agreement profit participations will accrue on the principal amount for each fiscal year of the Bank or part thereof. No profit participations will accrue to the extent payment thereof would lead to or increase an annual balance sheet loss, if a reduction has occurred which has not yet been fully restored, in the case of regulatory interventions or if the termination date falls within such period.

The Company may share in the losses of the Bank after allocation to/from its reserves and retained earnings up to the principal amount of the Silent Contribution. Any such losses would reduce the principal amount of the Silent Contribution. If at any time, the principal amount of the Silent Contribution is reduced on account of a loss, the principal amount of the Silent Contribution would be re-credited in the years subsequent in which profits are recorded, provided that at no time shall the principal amount of the Silent Contribution be more than the principal amount of the Silent Contribution on the date of the Participation Agreement.

(stated in United States dollars)

3. Silent Contribution (continued)

At December 31, 2019 the fair value of the level 2 investments, comprising solely of the Silent Contribution, was US$266,829,834 (December 31, 2018: US$293,253,768).

	Silent contribution US$	Fair value adjustments US$	Total US$
Balance at January 1, 2018	500,000,000	(239,586,392)	260,413,608
Fair value movements	–	32,840,160	32,840,160
Balance at December 31, 2018	500,000,000	(206,746,232)	293,253,768
Fair value movements	–	(26,423,934)	(26,423,934)
Balance at December 31, 2019	500,000,000	(233,170,166)	266,829,834

4. Loan receivable

On June 17, 2005 the Company entered into a term loan agreement, (the "Loan Agreement") with the Bank under which the Company made a US$553,000,000 term loan facility, in the form of a German law governed *Schuldscheindarlehen,* available to the Bank.

At December 31, 2019 the balance of the loan receivable was US$552,627,872 (2018: US$538,074,694) comprising the initial term loan facility of US$553,000,000, cumulative net adjustments due to impairment reversal of US$(13,498,243) (2018: US$1,054,935) and net adjustment following adoption of IFRS 9 on January 1, 2018 amounting to US$13,870,371.

The below table has been prepared in accordance with the requirements set out in IFRS 7.35H, showing the reconciliation from the opening balance to the closing balance of the loss allowance/impairment:

Impairment on loan receivable	
Balance as at January 1, 2018	13,870,371
Additions during the year	1,054,935
Balance as at December 31, 2018	14,925,306
Reversals during the year	(14,553,178)
Balance as at December 31, 2019	372,128

The impairment on loan receivable amounting to a total of US$372,128 as at December 31, 2019 was attributable to stage 2.

Interest is charged on the loan at a rate of 6.56% p.a. and the loan will mature on December 31, 2036. At December 31, 2019 the balance of interest receivable was US$Nil (2018: US$9,069,200).

(stated in United States dollars)

5. Class B preference shares

The Company issued 500,000 Class B preference shares to the Fiduciary. The purchase was funded from the issuance of US$500,000,000 SPHERE Securities.

Pursuant to the terms and conditions of the SPHERE Securities, the termination of the Participation Agreement will result in the redemption of the Class B preference shares and in the redemption of the SPHERE Securities on the repayment date of the Silent Contribution.

	Class B preference shares US$	Fair value movements US$	Total US$
Balance at January 1, 2018	500,000,000	(239,940,000)	260,060,000
Fair value movements	–	(51,025,000)	(51,025,000)
Balance at December 31, 2018	500,000,000	(290,965,000)	209,035,000
Fair value movements	–	(31,285,000)	(31,285,000)
Balance at December 31, 2019	500,000,000	(322,250,000)	177,750,000

Rights attaching to Class B preference shares:

i. Each Class B preference shareholder has a right to receive an annual dividend on each Class B preference share held, calculated, declared and paid based on the specification in the Articles of Association. Dividends are paid in cash.

ii. On winding–up of the Company or other return of capital (other than purchase or redemption of Class B preference shares), the Class B preference shareholders will be entitled to share in the Company's rights to interest accrued under the Loan Agreement, repayment amount under the Participation Agreement, interest on the repayment amount and the Company's rights to funding of the Luxembourg gross-up amount (the "Class B Ring-Fenced Assets"). No other holders of shares in the Company will be entitled to the Class B Ring-Fenced Assets. If the value of claims of the Company's creditors exceed the Company's assets (minus the Class A Ring-Fenced Assets and the Class B Ring-Fenced Assets), the rights of the Class B preference shareholders in the assets of the Company will rank junior to the rights of Class A preference shareholders up to an amount equal to the sum of the loan repayment amount under the Loan Agreement (plus amounts which have actually been received thereunder and minus amounts which have been received and passed on to Class A preference shareholders), but senior to the holders of other shares in the Company up to an amount equal to the Class B Ring-Fenced Assets (plus amounts which have actually been received thereunder and minus amounts which have been received and passed on to Class B preference shareholders).

iii. The Class B preference shareholders shall be entitled to receive notice of general meetings of the Company but shall not be entitled to attend and vote thereat.

(stated in United States dollars)

5. Class B preference shares (continued)

Rights attaching to Class B preference shares (continued):

iv. The Company will, forthwith upon becoming aware that the Class B preference shares will be redeemed, notify the Class B preference shareholders of (A) the date on which they will be redeemed, and (B) the amount of payment in cash.

v. The Company shall make all payments to the Class B preference shareholders pursuant to terms of the Articles of Association without any tax deduction, unless a tax deduction is required by law.

Pursuant to the terms and conditions of the Class B preference shares, the termination of the Silent Participation Agreement will require the redemption of the relevant Class B preference shares on the repayment date of the Silent Contribution and the Company will be required under the terms and conditions of the Class B preference shares to apply the repayment amount received by it on the repayment date of the Silent Contribution in redemption of the Class B preference shares by way of payment to the holders thereof. Pursuant to the terms of Participation Agreement, the relevant repayment amount (and thus the redemption amount payable pursuant to the terms and conditions of the Class B preference shares) will be identical to the book value of the Silent Contribution as determined in the Bank's unconsolidated balance sheet pursuant to HGB (German GAAP) as of December 31, 2020.

6. Share capital

		2019	2018
Authorised:			
10 Ordinary Shares of US$1,000 each		10,000	10,000
1,050,000 Class A preference shares of US$1,000 each		1,050,000,000	1,050,000,000
	US$	1,050,010,000	1,050,010,000
Issued and fully paid Ordinary Shares:			
10 Ordinary Shares of US$1,000 each		10,000	10,000
	US$	10,000	10,000

During the year ended December 31, 2019 and 2018, there were no changes to issued and fully paid Ordinary Shares.

Rights attaching to Ordinary shares:

i. Income: Each Ordinary Shareholder has right to receive such profits of the Company available for distribution as determined by the Directors after the payment to the Preference Shares of their dividends.

(stated in United States dollars)

6. Share capital (continued)

Rights attaching to Ordinary shares (continued):

ii. Capital: On a winding-up or other return of capital, the holder of each Ordinary Share shall be entitled, following payment to the holders of the Preference Shares, to repayment of the nominal amount of the capital paid-up thereon and thereafter any surplus then remaining shall be distributed pari passu among the holders of the Ordinary Shares.

iii. Voting: Each Ordinary Shareholder has right to receive notice of general meetings of the Company and to attend and to vote thereat either in person or proxy.

Issued and fully paid Class A preference shares:

	Number of shares 2019 US$	2019 US$	Number of shares 2018 US$	2018 US$
Balance beginning of year	645,034	645,034,000	645,034	645,034,000
Balance at December 31, 2019	645,034	645,034,000	645,034	645,034,000

Rights attaching to Class A preference shares:

i. Each Class A preference shareholder has a right to receive annual interim and final dividends on each Class A preference share held calculated based on the Articles of Association. Interim dividends are not paid by cash but by issue of such number of Class A preference shares, the aggregate par value of which equals the amount of such declared interim dividend. Final dividends are paid in cash.

ii. On winding–up of the Company or other return of capital (other than purchase or redemption of Class A preference shares), the Class A preference shareholders will be entitled to share in the Company's rights to the loan repayment amount under the Loan Agreement (the "Class A Ring-Fenced Assets"). No other holders of shares in the Company will be entitled to the Class A Ring-Fenced Assets. If the value of claims of the Company's creditors exceed the Company's assets (minus the Class A Ring-Fenced Assets and the Class B Ring-Fenced Assets), the rights of the Class A preference shareholders in the assets of the Company will rank senior to the rights of holders of other shares in the Company, up to an amount equal to the Class A Ring-Fenced Assets (plus amounts which have actually been received there under and minus amounts which have been received and passed on to Class A preference shareholders).

(stated in United States dollars)

6. Share capital (continued)

Rights attaching to Class A preference shares (continued):

iii. The Class A preference shareholders shall be entitled to receive notice of general meetings of the Company and shall be entitled to vote thereat.

iv. Class A preference shares may only be redeemed contemporaneously with redemption of the Class B preference shares or after the Class B preference shares have been redeemed. Class A preference shares may be redeemed at the option of the Class A preference shareholder or the Company by notice to the other. The Class A preference shares will be redeemed in an amount equal to the loan repayment amount under the Loan Agreement and aggregate profit participations under the Participation Agreement. The Company may set off its obligation to pay cash dividends in accordance with the terms of the Articles of Association against obligations owing to the Company by the Class A preference shareholder in respect of interest accrued and due but unpaid under the Loan Agreement.

7. Related party balances and transactions

The Company is controlled by the Bank, which is considered as related party.

The following transactions and balances with the Bank are disclosed below:

	Note	2019	2018
Statement of Financial Position:			
Silent Contribution	3	266,829,834	293,253,768
Loan receivable	4	552,627,872	538,074,694
Interest receivable	4	–	9,069,200
Cash and cash equivalents		45,549,594	203,594
Statement of Comprehensive Income:			
Interest income on loan		36,276,800	36,276,800

8. Disclosure of Fair Values in Accordance with IFRS 7

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.

(stated in United States dollars)

8. Disclosure of Fair Values in Accordance with IFRS 7 (continued)

The mark-to-matrix method is used to determine fair value where no market price is available under the mark-to-market method. If a fair value cannot be determined from the market or transaction prices of a financial instrument, either it is derived from the prices of comparable financial instruments or a model valuation is conducted with parameters that are almost completely observable in the market. This method has been applied to measure the fair value of the Class B Shares as well as the fair value of the Silent Contribution. These financial instruments are linked to the listed SPHERE securities, which are listed on the Stock Exchange in Amsterdam. The estimated fair value of the SPHERE securities as at December 31, 2019 was obtained from the quoted closing price as reported by Bloomberg as at 4:30 p.m. on that date.

The terms of the Class B Shares are identical in all material respects to those of the SPHERE Securities. Therefore the quoted market price of the SPHERE Securities represents the best available objective estimate of the fair value of the Class B Shares.

The terms of the Silent Contribution are similar to those of the SPHERE Securities. However, the Silent Contribution contains accrued interest from former profit periods since 2005. Therefore the fair value is derived from the quoted market price of the SPHERE Securities plus the fair value of the accrued interest that is determined by discounting cash flow taking into account rating-related spreads.

The fair value is determined by the mark-to-model valuation using a suitable model if a valuation cannot be derived, either of adequate quality or at all, using the mark-to-market or mark-to-matrix method. The fair value of the loan receivable is determined by discounting contractual cash flows taking into account rating-related spreads.

For each financial asset and liability, the fair values are disclosed and compared with the respective carrying amount (IFRS 7.25):

December 31, 2019	Note	Carrying Amount	Fair Value	Difference
Financial assets at fair value through profit or loss				
Silent Contribution	3	266,829,834	266,829,834	–
Financial assets measured at amortised cost				
Loan receivable	4	552,627,872	588,644,708	36,016,836
Interest receivable	4	–	–	–
Cash and cash equivalents		45,549,594	45,549,594	–
Financial liabilities at fair value through profit or loss				
Class B preference shares	5	177,750,000	177,750,000	–
Financial liabilities measured at amortised cost				
Other liabilities		1,528	1,528	–

(stated in United States dollars)

8. Disclosure of Fair Values in Accordance with IFRS 7 (continued)

December 31, 2018	Note	Carrying Amount	Fair Value	Difference
Financial assets at fair value through profit or loss				
Silent Contribution	3	293,253,768	293,253,768	–
Financial assets measured at amortised cost				
Loan receivable	4	538,074,694	592,579,211	54,504,517
Interest receivable	4	9,069,200	9,069,200	–
Cash and cash equivalents		203,594	203,594	–
Financial liabilities at fair value through profit or loss				
Class B preference shares	5	209,035,000	209,035,000	–
Financial liabilities measured at amortised cost				
Other liabilities		1,528	1,528	–

The table below analyses financial instruments measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorised:

December 31, 2019	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Silent Contribution	–	266,829,834	–	266,829,834
Financial liabilities at fair value through profit or loss				
Class B preference shares	177,750,000	–	–	177,750,000
	177,750,000	266,829,834	–	444,579,834

December 31, 2018	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Silent Contribution	–	293,253,768	–	293,253,768
Financial liabilities at fair value through profit or loss				
Class B preference shares	209,035,000	–	–	209,035,000
	209,035,000	293,253,768	–	502,288,768

(stated in United States dollars)

9. Credit, liquidity and market risk

The Company's investment activities expose it to various types of risk that are associated with the financial instruments and markets in which they invest. The most significant type of financial risk to which the Company is exposed is credit risk.

The nature and extent of the financial instruments outstanding at the date of the statement of financial position and the risk management policies employed by the Company are discussed below:

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. Credit risk is generally higher when a non-exchange traded financial instrument is involved because the counterparty for non-exchange traded financial instruments is not backed by an exchange clearing house.

The Company is potentially exposed to credit risk on the Silent Contribution, loan receivable and interest receivable and from its exposure on its cash and cash equivalents.

The counterparty of these items is solely the Bank. The carrying amounts of financial assets best represent the maximum credit risk exposure at the statement of financial position date.

As at December 31, 2019 and December 31, 2018 the Company's financial assets exposed to credit risk amounted to the following:

	Note	2019	2018
Silent Contribution	3	266,829,834	293,253,768
Loan receivable	4	552,627,872	538,074,694
Interest receivable	4	–	9,069,200
Cash and cash equivalents		45,549,594	203,594
	US$	865,007,300	840,601,256

The Class B preference shareholders bear the credit risk of the Silent Contribution and the Class A preference shareholders bear the credit risk of the loan and its interest receivable.

Liquidity risk and refinancing risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations associated with financial liabilities. The timing and terms of cash inflows from Silent Contribution and loan receivable are similar to cash outflows on accounts of Class A preference shares and Class B preference shares. As such, the Company is deemed to have insignificant exposures to liquidity risk and refinancing risk.

9. Credit, liquidity and market risk (continued)

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments in the market.

Market risk represents the potential loss that can arise as a result of adverse changes on market positions. Relevant for the Company are interest rates and credit spreads (interest rate risk). The Company is not exposed to foreign exchange risks, stock prices, indices and fund prices or commodity prices. As explained in Note 1 the limited purpose of the Company as an investment company is to provide funding to the Bank.The terms of the Loan Agreement and Participation Agreement are similar to the terms of the Class A preference shares and Class B preference shares. All proceeds received from the Bank under the loan receivable and the Silent Contribution are distributed to Class A and Class B Shareholders. Hence, the entire market risk of loan receivable and Silent Contribution is passed onto Class A preference shares and Class B preference shares. As such, the Company is deemed to have insignificant exposures to interest rate or credit spread risk. Changes in interest rates or credit spread risk do not have any significant impact on profit or loss and equity of the Company.

10. Taxation

There are no taxes on income or gains in the Cayman Islands and the Company has received an undertaking from the Governor in Cabinet of the Cayman Islands exempting it from all local income, profits and capital taxes until 2025 should such taxes be enacted. Accordingly, no provision for income taxes is included in these financial statements.

11. New pronouncements

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 Company has assessed the impact, or potential impact, of all New Accounting Requirements. In the opinion of the Company, 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 Company. The Company has not adopted any New Accounting Requirements that are not mandatory.

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2019 and not early adopted

There are no standards, interpretations or amendments to existing standards that are not yet effective that would be expected to have a significant impact on the Company.

12. Subsequent events

The Company declared a dividend on its Class A Preference Shares for the period of September 30, 2018 to September 30, 2019 in an aggregate amount of USD 36,276,800. The dividend was paid in cash on February 28, 2020 to the holder of the Class A Preference Shares.

As referred to in note 8, the fair value of the Silent Contribution and the Class B Shares is derived from the quoted price of the SPHERE securities as at December 31, 2019, as reported by Bloomberg. The Directors note that the quoted closing value of the SPHERE securities on April 14, 2020 was US$89,400,000 (calculated by multiplying the unit price and the nominal value), representing a 49.7% reduction in the value of the SPHERE Securities since the December 31, 2019 balance sheet date.

Subsequent to December 31, 2019, there has been a global outbreak of a coronavirus disease (COVID-19), which the World Health Organization has declared a pandemic. COVID-19 may impact upon the financial position of the Company, however this cannot be reliability quantified at the current time.

Other than matters disclosed in these notes, there have been no material subsequent events up until the date this report was authorised.

The financial statements were approved and authorised for issue by Directors on April, 28 2020.