Auditor's Report

HCOB Funding II (formerly: HSH N Funding II)
Grand Cayman

Financial Statements as of December 31, 2018

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Financial Statements of

HCOB Funding II (formerly, HSH N Funding II)

December 31, 2018

HCOB Funding II (formerly, HSH N Funding II)

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HCOB Funding II (formerly, HSH N Funding II)

Statement of Financial Position

December 31, 2018
(stated in United States dollars)

	Note	2018	2017
Assets			
Silent Contribution	3,7,8	293,253,768	260,413,608
Loan receivable	4,7,8	538,074,694	553,000,000
Interest receivable	4,7,8	9,069,200	9,069,200
Cash and cash equivalents	7,8	203,594	203,594
Total assets	US$	**840,601,256**	**822,686,402**
Liabilities and Equity			
Liabilities			
Class B preference shares	5,8	209,035,000	321,955,951
Other liabilities		1,528	1,528
		209,036,528	321,957,479
Equity			
Share capital	6	10,000	10,000
Class A preference shares	6	645,034,000	645,034,000
Revaluation reserve	2(a)	-	(178,203,088)
(Accumulated losses)/Retained earnings		(13,479,272)	33,888,011
		631,564,728	500,728,923
Total liabilities and equity	US$	**840,601,256**	**822,686,402**

See accompanying notes to financial statements.

Approved on behalf of the Board of Directors on 7 October, 2019

[Signed Andrew Morrisson, Director]

[Signed David Griffin, Director]

HCOB Funding II (formerly, HSH N Funding II)

Statement of Comprehensive Income

For the year ended December 31, 2018
(stated in United States dollars)

	Note	2018	2017
Income			
Net change in revised discounted cash flows (Silent Contribution)	2(d)(vii),3	-	(36,530,721)
Interest income on loan	4,7	36,276,800	36,276,800
Net change in fair value of financial liabilities		51,025,000	-
Net change in fair value of financial assets		32,840,160	-
		120,141,960	(253,921)
Finance costs			
Net change in revised discounted cash flows (Class B preference shares)	2(d)(vii),5	-	(73,809,243)
Impairment on loan receivable		1,054,935	-
		1,054,935	(73,809,243)
Net income for the year	US$	119,087,025	73,555,322
Other comprehensive income			
Net change in fair value of available-for-sale financial assets	2(d)(vii),3	-	183,305,150
		-	183,305,150
Comprehensive income for the year	US$	119,087,025	256,860,472

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, 2018
(stated in United States dollars)

		Note	Share Capital	Class A Preference Shares	Revaluation Reserve	(Accumulated losses)/ Retained earnings	Total
Balance at January 1, 2017	US$		10,000	645,034,000	(361,508,238)	(3,390,511)	280,145,251
Net income for the year			-	-	-	73,555,322	73,555,322
Class A dividend paid		6(a)i	-	-	-	(36,276,800)	(36,276,800)
Net change in fair value of available-for-sale financial assets		3	-	-	183,305,150	-	183,305,150
Balance at December 31, 2017	US$		10,000	645,034,000	(178,203,088)	33,888,011	500,728,923
Adjustments on adoption of IFRS 9			-	-	-	48,025,580	48,025,580
Transfer to Retained Earnings/(Accumulated losses)*		3	-	-	178,203,088	(178,203,088)	-
Adjusted balance at January 1, 2018			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		6(a)i	-	-	-	(36,276,800)	(36,276,800)
Balance at December 31, 2018	US$		10,000	645,034,000	-	(13,479,272)	631,564,728

* Due to the change in classification of the Silent Contribution from available-for-sale financial assets to financial assets measured at fair value through profit or loss, the Revaluation reserve amount of US$178,203,088 was transferred to accumulated losses.

See accompanying notes to financial statements.

HCOB Funding II (formerly, HSH N Funding II)

Statement of Cash Flows

For the year ended December 31, 2018
(stated in United States dollars)

		2018	2017
Cash provided by/(applied in):			
Operating activities			
Net income for the year		119,087,025	
	73,555,322		
Add/(deduct) net changes in non-cash operating balances:			
Net change in revised discounted cash flows (Class B preference shares)		-	(73,809,243)
Net change in revised discounted cash flows (Silent Contribution)		-	36,530,721
Impairment on loan receivable		1,054,935	-
Net change in fair value of financial assets		(32,840,160)	-
Net change in fair value of financial liabilities		(51,025,000)	-
Movement in:			
Interest receivable		-	(9,069,200)
Net cash generated from operating activities		36,276,800	
	27,207,600		
Financing activities			
Class A dividends paid		(36,276,800)	
		(36,276,800)	
Decrease in cash and cash equivalents during the year		-	(9,069,200)
Cash and cash equivalents at beginning of the year		203,594	9,272,794
Cash and cash equivalents at end of the year	US$	203,594	203,594
Supplementary information on cash flows from operating activities:			
Interest received		36,276,800	
		27,207,600	

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 the 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.

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 understand that certain underlying investors in the SPHERE Securities (the "Claimants") have taken legal action against the Bank in the Kiel Regional Court, Germany (the

"Court"). We understand that the Claimants are seeking that, amongst other things, the Silent Contribution is written up to 100% of its nominal value, compensation is paid for missed coupon payments and that the notice of termination is deemed to be ineffective. If the Claimants are successful, the Company's financial statements could be materially impacted.

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.

The former state owners and minority owner sold their stake of 94.9 % in the Bank in full to several investors on 28 February 2018 (signing). The sale was closed on 28 November 2018 after all of the conditions precedent had been fulfilled. The buyers are independent funds of Cerberus Capital Management, L.P., J.C. Flowers & Co. LLC and GoldenTree Asset Management LP as well as an Acquisition Company of Centaurus Capital LP and BAWAG P.S.K.

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, assuming that the notice is valid, 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) Adoption of IFRS 9 -'Financial Instruments: Classification and Measurement'

IFRS 9 deals with recognition, derecognition, classification and measurement of financial assets and financial liabilities. Its requirements represent a significant change from the previous requirements in IAS 39 Financial Instruments, 'Recognition and Measurement'. The initial application of IFRS 9 results in changes in the carrying amounts between the closing balance sheet in accordance with IAS 39 as at 31 December 2017 and the opening balance sheet in accordance with IFRS 9 as at 1 January 2018. The changes relate to financial instruments and are based on the new classification, measurement and impairment provisions set out in IFRS 9. Retrospective application is required but comparative information is not compulsory.

Upon adoption of IFRS 9, the classification of the Silent Contribution changed from available-for-sale financial assets to financial assets measured at fair value through profit or loss and the classification of the Class B preference shares changed from financial liabilities measured at amortised cost to financial liabilities measured at fair value through profit or loss. The Class B preference shares are designated as financial liabilities measured at fair value through profit or loss in order to eliminate or significantly reduce the measurement inconsistency that would otherwise arise from measuring the Silent Contribution at fair value through profit or loss whilst measuring the Class B preference shares at amortised cost. The loan receivable is assessed for any impairment upon adoption of IFRS 9.

In accordance with the option provided for in IFRS 9.7.2.15, the Company has opted not to adjust the comparative figures in the statement of financial position and has prepared a reconciliation for the reclassified items from the closing balance sheet in accordance with IAS 39 as at 31 December 2017 to the opening balance sheet in accordance with IFRS 9 as at 1 January 2018.

The below reconciliation has been prepared in accordance with the requirements set out in IFRS 7.42L to IFRS 7.42O. The balance sheet carrying amounts in the closing balance sheet as at 31 December 2017 in accordance with IAS 39 are reconciled to the balance sheet carrying amounts of the opening balance sheet as at 1 January 2018 in accordance with IFRS 9. The information is provided using two tables for each reclassified item containing financial instruments. For the reconciliation of impairment allowances in accordance with IAS 39 to impairment allowances in accordance with IFRS 9, a further table was also prepared in line with the requirements of IFRS 7.42P.

(stated in United States dollars)

2. Significant accounting policies (continued)

(a) Adoption of IFRS 9 -'Financial Instruments: Classification and Measurement' (continued)

Reconciliation of measurement categories and carrying amounts of financial instruments from IAS 39 to IFRS 9

	IAS 39 measurement category	IAS 39 carrying amount	IFRS 9 measurement category	IFRS 9 carrying amount
Asset				
Silent Contribution	Available-for-sale assets measured at fair value	260,413,608	Fair value through profit or loss	260,413,608
Loan receivable	Loans and receivables measured at amortised cost	553,000,000	Amortised cost	539,129,629
Interest receivable	Assets measured at amortised cost	9,069,200	Amortised cost	9,069,200
Cash and cash equivalents	Assets measured at amortised cost	203,594	Amortised cost	203,594
Liability				
Class B preference shares	Liabilities measured at amortised cost	321,955,951	Fair value through profit or loss	260,060,000
Other liabilities	Liabilities measured at amortised cost	1,528	Amortised cost	1,528

(stated in United States dollars)

2. Significant accounting policies (continued)

(a) Adoption of IFRS 9 -'Financial Instruments: Classification and Measurement' (continued)

Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7

		31-Dec-17			1-Jan-18
		IAS 39 carrying amount	Reclassification	Remeasurement	IFRS 9 carrying amount
Silent Contribution					
From	Available-for-sale	260,413,608			
To	Fair value through profit or loss		260,413,608	-	260,413,608
Loan receivable					
From	Amortised cost	553,000,000			
To	Amortised cost		553,000,000	(13,870,371)	539,129,629
Interest receivable					
From	Amortised cost	9,069,200			
To	Amortised cost		9,069,200	-	9,069,200
Cash and cash equivalents					
From	Amortised cost	203,594			
To	Amortised cost		203,594	-	203,594
Class B preference shares					
From	Amortised cost	(321,955,951)			
To	Fair value through profit or loss		(321,955,951)	61,895,951	(260,060,000)
Other liabilities					
From	Amortised cost	1,528			
To	Amortised cost		1,528	-	1,528

Due to the change in classification of the Silent Contribution from available-for-sale financial assets to financial assets measured at fair value through profit or loss, the Revaluation reserve amount of US$178,203,088 was transferred to Accumulated losses.

(stated in United States dollars)

2. Significant accounting policies (continued)

(a) Adoption of IFRS 9 - 'Financial Instruments: Classification and Measurement' (continued)

Reconciliation of impairments in accordance with IFRS 7.42P. - financial assets

		31-Dec-17			1-Jan-18
		IAS 39 amount	Reclassification	Remeasurement	IFRS 9 amount
Impairment on loan receivable					
From	Amortised cost	-			
To	Amortised cost		-	(13,870,371)	(13,870,371)

The initial application of IFRS 9 requires the amount of changes in the fair value that is attributable to changes in the credit risk of the Class B preference shares to be presented in other comprehensive income. In cases where the stated accounting treatment would create or enlarge an accounting mismatch, the fair value changes shall be presented in profit or loss.

The Silent Contribution and Class B preference shares are financial instruments with similar characteristics and are economically related such that their fair value movements mainly offset each other. Therefore, in order to avoid an accounting mismatch, the fair value movements of both financial instruments, including the movements attributable to changes in credit risk, are presented through profit and loss.

The below table has been prepared in accordance with the requirements set out in IFRS 7.10A and IFRS 7.11, showing the amount of change, during the year and cumulatively, in the fair value of the Class B preference shares that is attributable to changes in the credit risk of this liability:

	For the year ended December 31, 2018	
	Cumulatively	During the year
Changes in fair value of the Class B preference shares attributable to changes in credit risk	313,914,948	(52,843,680)

Market quotes are compared with a calculated fair value that uses the historical credit spread of the Class B preference shares to determine the changes in credit risk. The difference between these two prices represents the cumulative change in fair value due to changes in credit risk.

2. Significant accounting policies (continued)

(b) 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 year. 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.

(c) 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 Article of Association.

(d) Financial instruments

(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.

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

2. Significant accounting policies (continued)

(d) Financial instruments (continued)

(i) Classification (continued)

Upon adoption of IFRS 9 on January 1, 2018 the Company changed the classification of its investments in Silent Contribution from available-for-sale to financial assets measured at fair value through profit or loss. The investments in Silent Contribution are not held for trading purposes. All other financial assets are classified as financial assets measured at amortized cost. The classification of the Class B preference shares changed from financial liabilities measured at amortised cost to financial liabilities measured at fair value through profit or loss. All other financial liabilities are classified as financial liabilities measured at amortized cost. The Company classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

(ii) Recognition

The Company recognizes 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)

(d) 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 recognized in the statement of comprehensive income (see notes 3 and 5).

(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 quotes 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.

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 quoted investments) is based on quoted market prices at the end of the reporting period.

The estimated fair values of the Silent Contribution and the Class B Securities are disclosed in note 8.

2. Significant accounting policies (continued)

(d) Financial instruments (continued)

(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 introduction of IFRS 9 replaces the earlier model used to calculate loan loss provisions/impairments under IAS 39, which was based primarily on incurred losses, with a model based on expected credit losses. The scope of the new model 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 l 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

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.

2. Significant accounting policies (continued)

(d) Financial instruments (continued)

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

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 the internal credit risk models of Hamburg Commercial Bank AG (formerly HSH Nordbank AG) 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.

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.

2. Significant accounting policies (continued)

(d) Financial instruments (continued)

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

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, as under IAS 39.

2. Significant accounting policies (continued)

(d) Financial instruments (continued)

(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
Upon adoption of IFRS 9 on January 1, 2018 the Company changed the classification of its investments in Silent Contribution from available-for-sale to financial assets measured at fair value through profit or loss. The investments in Silent Contribution are 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 adjusted 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 categorized as a level 2 investment in the fair value hierarchy.

Loan receivable
Loan receivable is subsequently measured at amortized 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 recognized 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.

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.

(e) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when a signed agreement clearly defines the enforceable right of the Company and another party to settle on a net basis or realize the asset and settle the liability simultaneously.

(stated in United States dollars)

3. Silent Contribution

The Company acquired a silent capital interest in the aggregate amount of US$500,000,000 (2017: 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 (2017: US$500,000,000).

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 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 there has occurred a reduction 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.

At December 31, 2018 the fair value of the level 2 investments, comprising solely of the Silent Contribution, was US$293,253,768 (2017: US$260,413,608).

	Silent contribution USD	Accrued profit participation USD	Net results from revised discounted cash flows USD	Fair value adjustments USD	Total USD
Balance at January 1, 2017	500,000,000	92,034,722	(116,887,305)	(361,508,238)	113,639,179
AG.8 and fair value movements	-	-	(36,530,721)	183,305,150	146,774,429
Balance at December 31, 2017	500,000,000	92,034,722	(153,418,026)	(178,203,088)	260,413,608
Fair value movements	-	-	-	32,840,160	32,840,160
Balance at December 31, 2018	500,000,000	92,034,722	(153,418,026)	(145,362,928)	293,253,768

(stated in United States dollars)

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 has 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, 2018 the balance of the loan receivable was US$538,074,694 (2017: US$553,000,000) comprising the initial term loan facility of US$553,000,000, current year net adjustments due to impairment of US$1,054,935 and net adjustments due to impairment of US$13,870,371 following adoption of IFRS 9 on January 1, 2018 (2017: US$Nil).

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	For the year ended December 31, 2018
Balance as at December 31, 2017	-
Remeasurement following adoption of IFRS 9	13,870,371
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

The impairment on loan receivable amounting to a total of US$14,925,306 as at December 31, 2018 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, 2018 the balance of interest receivable was US$9,069,200 (2017: US$9,069,200).

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.

At December 31, 2018 the balance of the Class B preference shares was US$209,035,000 (2017: US$321,955,951) comprising the initially issued amount of US$500,000,000, net cumulative results from revised discounted cash flows of US$(178,044,049) (2017: US$(178,044,049)) until December 31, 2017 in accordance with IAS 39.AG8, net adjustments due to IFRS 9 of US$(61,895,951) (2017: US$Nil) following adoption of IFRS 9 on January 1, 2018 and fair value movements of US$(51,025,000) (2017: US$Nil).

HCOB Funding II (formerly, HSH N Funding II)

Notes to Financial Statements (continued)

For the year ended December 31, 2018
(stated in United States dollars)

5. Class B preference shares (continued)

	Class B preference shares	Net results from revised discounted cash flows	Fair value movements	Total
	USD	USD	USD	USD
Balance at January 1, 2017	500,000,000	(104,234,806)	-	395,765,194
Result of revised discounted cash flows for the year	-	(73,809,243)	-	(73,809,243)
Balance at December 31, 2017	500,000,000	(178,044,049)	-	321,955,951
Adjustments following adoption of IFRS 9	-	-	(61,895,951)	(61,895,951)
Adjusted balance at January 1, 2018	500,000,000	(178,044,049)	(61,895,951)	260,060,000
Fair value movements	-	-	(51,025,000)	
		(51,025,000)		
Balance at December 31, 2018	500,000,000	(178,044,049)	(112,920,951)	
	209,035,000			

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).

(stated in United States dollars)

5. Class B preference shares (continued)

Rights attaching to Class B preference shares(continued):

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.

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 Participation Agreement (if valid) 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 31 December 2020.

6. Share capital

		2018	2017
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:			
10 Ordinary Shares of US$1,000 each	US$	10,000	10,000

During the year ended December 31, 2018 and 2017, there were no changes to issued and fully paid Ordinary Shares.

(stated in United States dollars)

6. Share capital (continued)

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.
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:

	2018 Number of shares	2018 US$	2017 Number of shares	2017 US$
Balance at beginning of year	645,034	645,034,000	645,034	645,034,000
Balance at end of year	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 a related party.

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

	Note	2018	2017
Statement of Financial Position:			
Silent Contribution	3	293,253,768	260,413,608
Loan receivable	4	538,074,694	553,000,000
Interest receivable	4	9,069,200	9,069,200
Cash and cash equivalents		203,594	203,594
Statement of Comprehensive Income:			
Interest income on loan	4	36,276,800	36,276,800

(stated in United States dollars)

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.

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 31st December 2018 was provided by HCOB, being obtained from the quoted 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 by 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, 2018	Note	Carrying Amount	Fair Value	Difference
Silent Contribution	3	293,253,768	293,253,768	-
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	-
Class B preference shares	5	209,035,000	209,035,000	-

Other liabilities		1,528	1,528	-

December 31, 2017	Note	Carrying Amount	Fair Value	Difference
Silent Contribution	3	260,413,608	260,413,608	-
Loan receivable	4	553,000,000	708,396,234	155,396,234
Interest receivable	4	9,069,200	9,069,200	-
Cash and cash equivalents		203,594	203,594	-
Class B preference shares	5	321,955,951	260,060,000	(61,895,951)
Other liabilities		1,528	1,528	-

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.

(stated in United States dollars)

9. Credit, liquidity and market risk (continued)

Credit risk (continued)

As at December 31, 2018 and December 31, 2017 the Company's financial assets exposed to credit risk amounted to the following:

	Note	2018	2017
Silent Contribution	3	293,253,768	260,413,608
Loan receivable	4	538,074,694	553,000,000
Interest receivable	4	9,069,200	9,069,200
Cash and cash equivalents		203,594	203,594
	US$ 822,686,402	840,601,256	

The Class B preference shareholders bear the 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.

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.

9. Credit, liquidity and market risk (continued)

Market risk (continued)

The terms of the Loan Agreement and Participation Agreement are similar to terms of 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 are 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 year that had any material effect on the reported performance, financial position, or disclosures of the Company other than those listed below. The Company has not adopted any New Accounting Requirements that are not mandatory.

11. New pronouncements (continued)

Standards and amendments to existing standards effective from January 1, 2018

IFRS 9 'Financial Instruments: Classification and Measurement'

IFRS 9 deals with recognition, derecognition, classification and measurement of financial assets and financial liabilities. Its requirements represent a significant change from the existing requirements in IAS 39 Financial Instruments, 'Recognition and Measurement'. The initial application of IFRS 9 results in changes in the carrying amounts between the closing balance sheet in accordance with IAS 39 as at 31 December 2017 and the opening balance sheet in accordance with IFRS 9 as at 1 January 2018. The changes relate to financial instruments and are based on the new classification, measurement and impairment provisions set out in IFRS 9. Retrospective application is required but comparative information is not compulsory.

The Company applied the provisions set out in IFRS 9 for the first time in its unaudited financial statements as at June 30, 2018. Refer to note 2 – Significant accounting policies for further details.

There were no other standards, interpretations or amendments to existing standards that are effective during 2018 that have a significant impact on the Company.

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2018 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

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 31st December 2018, as reported by Bloomberg. The Directors note that the quoted closing value of the SPHERE securities on 4 October 2019 was US$105,000,000 (calculated by multiplying the unit price and the nominal value), representing a 49.8% reduction in the value of the SPHERE securities since the 31 December 2018 balance sheet date.

There have been no other material subsequent events up until the date this report was authorised.

The financial statements were approved and authorised for issue by Directors on 7 October 2019.

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, 2018, 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, 2018, 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 matters of most significance in our audit were as follows:

❶ Valuation of the silent contribution

❷ First time adoption of IFRS 9 Financial Instruments

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 at an amount of USD 293,253,768 as at December 31, 2018. By the end of 2018 the issuer terminated the silent participation agreement. If the termination is valid, as a consequence the silent participation will be repaid by the issuer in 2021 in accordance with the terms of the silent participation agreement. 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 comparable financial instruments on 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 capital 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 2018.

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.

❷ First time adoption of IFRS 9 Financial Instruments

① The Company applies the accounting standard IFRS 9 “Financial Instruments” since 1 January 2018. IFRS 9 brings fundamental changes to financial instrument accounting as it replaces IAS 39 “Financial Instruments”. IFRS 9 includes amended guidance for the classification and measurement of financial assets and sets out a new impairment model (which will result in earlier recognition of losses). IFRS 9 is a new and complex accounting standard resulting in significant changes to line items and requiring significant additional disclosure. IFRS 9 requires financial assets to be measured at amortised cost or fair value with huge impact for the classification of financial assets within the balance sheet of the company.

The first-time application of IFRS 9 has had an effect on changes in the classification and measurement of financial instruments as well as on additional risk provisions.

The inclusion of additional risk provisions (USD -13,870,371) for the loan and the reclassification of the Class B shares from financial liabilities measured at amortised cost to financial liabilities measured at fair value through profit or loss (USD 61,895,951) result in a total first-time adoption effect of USD 48,025,580.

Due to the scope for judgment and uncertainties in the estimations made in connection with the initial application of IFRS 9 and subsequent measurement, this matter was of particular significance in the context of our audit.

② As part of our audit, we evaluated the technical and procedural implementation of the requirements for the classification and measurement of financial instruments pursuant to IFRS 9. We validated the impact assessment performed by management along with the subsequent reclassification and disclosures made in the financial statements.

We tested the journal entries made to reclassify the silent contribution and Sphere Securities from available for sale and amortised cost respectively to fair value through profit and loss.

We evaluated the assessments and disclosures made in the financial statements against the requirements of the relevant accounting standards.

Based on our audit procedures, we were able to satisfy ourselves that the assumptions used by management to classify and measure financial instruments in connection with the initial application of IFRS 9 and subsequent measurement are appropriate overall

③ The company's disclosures relating to the adoption of IFRS 9 are detailed in section 2 ('Significant Accounting Policies') and section 11 ('New Pronouncements') 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, October 11, 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Lothar Schreiber
Wirtschaftsprüfer
[German Public Auditor]

ppa Tim Brücken
Wirtschaftsprüfer
[German Public Auditor]

[Translator's notes are in square brackets]

General Engagement Terms
for
Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften
[German Public Auditors and Public Audit Firms]
as of January 1, 2017

1. Scope of application

(1) These engagement terms apply to contracts between German Public Auditors (*Wirtschaftsprüfer*) or German Public Audit Firms (*Wirtschaftsprüfungsgesellschaften*) – hereinafter collectively referred to as "German Public Auditors" – and their engaging parties for assurance services, tax advisory services, advice on business matters and other engagements except as otherwise agreed in writing or prescribed by a mandatory rule.

(2) Third parties may derive claims from contracts between German Public Auditors and engaging parties only when this is expressly agreed or results from mandatory rules prescribed by law. In relation to such claims, these engagement terms also apply to these third parties.

2. Scope and execution of the engagement

(1) Object of the engagement is the agreed service – not a particular economic result. The engagement will be performed in accordance with the German Principles of Proper Professional Conduct (*Grundsätze ordnungsmäßiger Berufsausübung*). The German Public Auditor does not assume any management functions in connection with his services. The German Public Auditor is not responsible for the use or implementation of the results of his services. The German Public Auditor is entitled to make use of competent persons to conduct the engagement.

(2) Except for assurance engagements (*betriebswirtschaftliche Prüfungen*), the consideration of foreign law requires an express written agreement.

(3) If circumstances or the legal situation change subsequent to the release of the final professional statement, the German Public Auditor is not obligated to refer the engaging party to changes or any consequences resulting therefrom.

3. The obligations of the engaging party to cooperate

(1) The engaging party shall ensure that all documents and further information necessary for the performance of the engagement are provided to the German Public Auditor on a timely basis, and that he is informed of all events and circumstances that may be of significance to the performance of the engagement. This also applies to those documents and further information, events and circumstances that first become known during the German Public Auditor's work. The engaging party will also designate suitable persons to provide information.

(2) Upon the request of the German Public Auditor, the engaging party shall confirm the completeness of the documents and further information provided as well as the explanations and statements, in a written statement drafted by the German Public Auditor.

4. Ensuring independence

(1) The engaging party shall refrain from anything that endangers the independence of the German Public Auditor's staff. This applies throughout the term of the engagement, and in particular to offers of employment or to assume an executive or non-executive role, and to offers to accept engagements on their own behalf.

(2) Were the performance of the engagement to impair the independence of the German Public Auditor, of related firms, firms within his network, or such firms associated with him, to which the independence requirements apply in the same way as to the German Public Auditor in other engagement relationships, the German Public Auditor is entitled to terminate the engagement for good cause.

5. Reporting and oral information

To the extent that the German Public Auditor is required to present results in writing as part of the work in executing the engagement, only that written work is authoritative. Drafts are non-binding. Except as otherwise agreed, oral statements and explanations by the German Public Auditor are binding only when they are confirmed in writing. Statements and information of the German Public Auditor outside of the engagement are always non-binding.

6. Distribution of a German Public Auditor's professional statement

(1) The distribution to a third party of professional statements of the German Public Auditor (results of work or extracts of the results of work whether in draft or in a final version) or information about the German Public Auditor acting for the engaging party requires the German Public Auditor's written consent, unless the engaging party is obligated to distribute or inform due to law or a regulatory requirement.

(2) The use by the engaging party for promotional purposes of the German Public Auditor's professional statements and of information about the German Public Auditor acting for the engaging party is prohibited.

7. Deficiency rectification

(1) In case there are any deficiencies, the engaging party is entitled to specific subsequent performance by the German Public Auditor. The engaging party may reduce the fees or cancel the contract for failure of such subsequent performance, for subsequent non-performance or unjustified refusal to perform subsequently, or for unconscionability or impossibility of subsequent performance. If the engagement was not commissioned by a consumer, the engaging party may only cancel the contract due to a deficiency if the service rendered is not relevant to him due to failure of subsequent performance, to subsequent non-performance, to unconscionability or impossibility of subsequent performance. No. 9 applies to the extent that further claims for damages exist.

(2) The engaging party must assert a claim for the rectification of deficiencies in writing (*Textform*) [*Translators Note: The German term "Textform" means in written form, but without requiring a signature*] without delay. Claims pursuant to paragraph 1 not arising from an intentional act expire after one year subsequent to the commencement of the time limit under the statute of limitations.

(3) Apparent deficiencies, such as clerical errors, arithmetical errors and deficiencies associated with technicalities contained in a German Public Auditor's professional statement (long-form reports, expert opinions etc.) may be corrected – also versus third parties – by the German Public Auditor at any time. Misstatements which may call into question the results contained in a German Public Auditor's professional statement entitle the German Public Auditor to withdraw such statement – also versus third parties. In such cases the German Public Auditor should first hear the engaging party, if practicable.

8. Confidentiality towards third parties, and data protection

(1) Pursuant to the law (§ [Article] 323 Abs 1 [paragraph 1] HGB [German Commercial Code: *Handelsgesetzbuch*], § 43 WPO [German Law regulating the Profession of Wirtschaftsprüfer: *Wirtschaftsprüferordnung*], § 203 StGB [German Criminal Code: *Strafgesetzbuch*]) the German Public Auditor is obligated to maintain confidentiality regarding facts and circumstances confided to him or of which he becomes aware in the course of his professional work, unless the engaging party releases him from this confidentiality obligation.

(2) When processing personal data, the German Public Auditor will observe national and European legal provisions on data protection.

9. Liability

(1) For legally required services by German Public Auditors, in particular audits, the respective legal limitations of liability, in particular the limitation of liability pursuant to § 323 Abs. 2 HGB, apply.

(2) Insofar neither a statutory limitation of liability is applicable, nor an individual contractual limitation of liability exists, the liability of the German Public Auditor for claims for damages of any other kind, except for damages resulting from injury to life, body or health as well as for damages that constitute a duty of replacement by a producer pursuant to § 1 ProdHaftG [German Product Liability Act: *Produkthaftungsgesetz*], for an individual case of damages caused by negligence is limited to € 4 million pursuant to § 54 a Abs. 1 Nr. 2 WPO.

(3) The German Public Auditor is entitled to invoke demurs and defenses based on the contractual relationship with the engaging party also towards third parties.

(4) When multiple claimants assert a claim for damages arising from an existing contractual relationship with the German Public Auditor due to the German Public Auditor's negligent breach of duty, the maximum amount stipulated in paragraph 2 applies to the respective claims of all claimants collectively.

(5) An individual case of damages within the meaning of paragraph 2 also exists in relation to a uniform damage arising from a number of breaches of duty. The individual case of damages encompasses all consequences from a breach of duty regardless of whether the damages occurred in one year or in a number of successive years. In this case, multiple acts or omissions based on the same source of error or on a source of error of an equivalent nature are deemed to be a single breach of duty if the matters in question are legally or economically connected to one another. In this event the claim against the German Public Auditor is limited to € 5 million. The limitation to the fivefold of the minimum amount insured does not apply to compulsory audits required by law.

(6) A claim for damages expires if a suit is not filed within six months subsequent to the written refusal of acceptance of the indemnity and the engaging party has been informed of this consequence. This does not apply to claims for damages resulting from scienter, a culpable injury to life, body or health as well as for damages that constitute a liability for replacement by a producer pursuant to § 1 ProdHaftG. The right to invoke a plea of the statute of limitations remains unaffected.

10. Supplementary provisions for audit engagements

(1) If the engaging party subsequently amends the financial statements or management report audited by a German Public Auditor and accompanied by an auditor's report, he may no longer use this auditor's report.

If the German Public Auditor has not issued an auditor's report, a reference to the audit conducted by the German Public Auditor in the management report or any other public reference is permitted only with the German Public Auditor's written consent and with a wording authorized by him.

(2) If the German Public Auditor revokes the auditor's report, it may no longer be used. If the engaging party has already made use of the auditor's report, then upon the request of the German Public Auditor he must give notification of the revocation.

(3) The engaging party has a right to five official copies of the report. Additional official copies will be charged separately.

11. Supplementary provisions for assistance in tax matters

(1) When advising on an individual tax issue as well as when providing ongoing tax advice, the German Public Auditor is entitled to use as a correct and complete basis the facts provided by the engaging party – especially numerical disclosures; this also applies to bookkeeping engagements. Nevertheless, he is obligated to indicate to the engaging party any errors he has identified.

(2) The tax advisory engagement does not encompass procedures required to observe deadlines, unless the German Public Auditor has explicitly accepted a corresponding engagement. In this case the engaging party must provide the German Public Auditor with all documents required to observe deadlines – in particular tax assessments – on such a timely basis that the German Public Auditor has an appropriate lead time.

(3) Except as agreed otherwise in writing, ongoing tax advice encompasses the following work during the contract period:

a) preparation of annual tax returns for income tax, corporate tax and business tax, as well as wealth tax returns, namely on the basis of the annual financial statements, and on other schedules and evidence documents required for the taxation, to be provided by the engaging party

b) examination of tax assessments in relation to the taxes referred to in (a)

c) negotiations with tax authorities in connection with the returns and assessments mentioned in (a) and (b)

d) support in tax audits and evaluation of the results of tax audits with respect to the taxes referred to in (a)

e) participation in petition or protest and appeal procedures with respect to the taxes mentioned in (a).

In the aforementioned tasks the German Public Auditor takes into account material published legal decisions and administrative interpretations.

(4) If the German Public auditor receives a fixed fee for ongoing tax advice, the work mentioned under paragraph 3 (d) and (e) is to be remunerated separately, except as agreed otherwise in writing.

(5) Insofar the German Public Auditor is also a German Tax Advisor and the German Tax Advice Remuneration Regulation (*Steuerberatungsvergütungsverordnung*) is to be applied to calculate the remuneration, a greater or lesser remuneration than the legal default remuneration can be agreed in writing (*Textform*).

(6) Work relating to special individual issues for income tax, corporate tax, business tax, valuation assessments for property units, wealth tax, as well as all issues in relation to sales tax, payroll tax, other taxes and dues requires a separate engagement. This also applies to:

a) work on non-recurring tax matters, e.g. in the field of estate tax, capital transactions tax, and real estate sales tax**;**

b) support and representation in proceedings before tax and administrative courts and in criminal tax matters;

c) advisory work and work related to expert opinions in connection with changes in legal form and other re-organizations, capital increases and reductions, insolvency related business reorganizations, admission and retirement of owners, sale of a business, liquidations and the like, and

d) support in complying with disclosure and documentation obligations.

(7) To the extent that the preparation of the annual sales tax return is undertaken as additional work, this includes neither the review of any special accounting prerequisites nor the issue as to whether all potential sales tax allowances have been identified. No guarantee is given for the complete compilation of documents to claim the input tax credit.

12. Electronic communication

Communication between the German Public Auditor and the engaging party may be via e-mail. In the event that the engaging party does not wish to communicate via e-mail or sets special security requirements, such as the encryption of e-mails, the engaging party will inform the German Public Auditor in writing (*Textform*) accordingly.

13. Remuneration

(1) In addition to his claims for fees, the German Public Auditor is entitled to claim reimbursement of his expenses; sales tax will be billed additionally. He may claim appropriate advances on remuneration and reimbursement of expenses and may make the delivery of his services dependent upon t complete satisfaction of his claims. Multiple engaging parties are jointly a severally liable.

(2) If the engaging party is not a consumer, then a set-off against t German Public Auditor's claims for remuneration and reimbursement expenses is admissible only for undisputed claims or claims determined be legally binding.

14. Dispute Settlement

The German Public Auditor is not prepared to participate in dispute settl ment procedures before a consumer arbitration board (*Verbraucherschlic tungsstelle*) within the meaning of § 2 of the German Act on Consum Dispute Settlements (*Verbraucherstreitbeilegungsgesetz*).

15. Applicable law

The contract, the performance of the services and all claims resulting therefrom are exclusively governed by German law.