

RESPARCS FUNDING II LIMITED PARTNERSHIP

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2010

RESPARCS FUNDING II LIMITED PARTNERSHIP

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RESPARCS FUNDING II LIMITED PARTNERSHIP

REPORT OF THE GENERAL PARTNER

The General Partner, European Capital Investment Opportunities Limited, presents its annual report and the audited financial statements of Resparcs Funding II Limited Partnership (the "Partnership") for the year ended 31st December 2010.

PARTNERSHIP

The Partnership was established on 17th April 2003 and is registered as a limited partnership in Jersey under the Limited Partnerships (Jersey) Law 1994 for an unlimited duration. The Partnership commenced activities on 26th May 2003, with the issue of €500,000,000 nominal of RESPARCS Securities.

ACTIVITIES

The principal activity of the Partnership is to participate in financing activities arranged for HSH Nordbank Aktiengesellschaft ("HSH Nordbank"). The Partnership has issued €500,000,000 nominal of 7.5% Re-Engineered Silent Participation Assimilated Regulatory Capital (RESPARC) Securities (the "RESPARC Securities"), the proceeds from which have been used to acquire a silent capital interest (the "Silent Contribution") in the commercial enterprise of HSH Nordbank in the form of a "Stille Gesellschaft" under German law in the amount of €500,000,000. The market for the Silent Contribution and hence the RESPARC Securities issued by the Partnership, is limited to highly sophisticated investors who understand the risks and rewards associated with these financial instruments. The RESPARC Securities are listed on the Frankfurt Stock Exchange and the Official Segment of the stock market of Euronext Amsterdam N.V.

On 18th December 2009, HSH Nordbank issued a Press Release stating that HSH Nordbank would not be servicing its Profit Participation certificates for 2009. Therefore, Profit Participation income accrued as at 31st December 2009 has been reduced to €nil to reflect the fact that no Profit Participation income will be received in 2010.

Following the press release and review of HSH Nordbank's performance for the year ended 31st December 2009 an impairment was recognised in relation to the Silent Contribution interest as at 31st December 2009, with the carrying value of Silent Contribution interest written down to €418,742,939.

As at 31st December 2010 the carrying value of the Silent Contribution increased by €32,033,835 from €418,742,939 to €450,776,774. This reflects the movement in the carrying value of the Silent Contribution using the effective interest rate method.

On 31st March 2011, HSH Nordbank issued a Press Release stating that HSH Nordbank would not be servicing its Profit Participation certificates for 2010. Therefore, no Profit Participation income has been accrued as at 31st December 2010 to reflect the fact that no Profit Participation income will be received in 2011.

For further details on activity of the Partnership and events during the year please refer to Note 2 and Note 8.

GOING CONCERN

Due to the limited recourse nature of the structure, the General Partner is of the opinion that the Partnership will be able to meet its obligations as they fall due. Therefore the financial statements have been prepared on a going concern basis, not withstanding the net liability position of the Partnership at the year end. Detailed information on the General Partners assessment of going concern review is disclosed in Note 1.

INDEPENDENT AUDITORS

KPMG Channel Islands Limited have been appointed as auditors and have expressed their willingness to continue in office.



Signed on behalf of

European Capital Investment Opportunities Limited

General Partner

22 Grenville Street

St. Helier

Jersey, Channel Islands

JE4 8PX

Date: 27/04/11

RESPARCS FUNDING II LIMITED PARTNERSHIP

STATEMENT OF GENERAL PARTNER'S RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The General Partner is responsible for preparing the financial statements in accordance with applicable law, the Limited Partnership Agreement and International Financial Reporting Standards.

The General Partner is responsible for the preparation of financial statements for each financial period which give a true and fair view of the surplus or deficit of the Partnership for the period and of the state of affairs at the end of the period. In preparing the financial statements the General Partner should:

- * select suitable accounting policies and then apply them consistently;
- * make judgements and estimates that are reasonable and prudent;
- * state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- * prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Partnership will continue in business.

The General Partner is responsible for keeping accounting records which are sufficient to show and explain the Partnership's transactions and are such as to disclose with reasonable accuracy, at any time, the financial position of the Partnership. The General Partner is also responsible for safeguarding the assets of the Partnership and hence for taking reasonable steps for the prevention and detection of fraud, errors and other irregularities.

STATEMENT OF PERSONS RESPONSIBLE WITHIN THE ISSUER

With regard to Regulation 2004/109/EC of the European Union (the "EU Transparency Directive"), the Directors of the General Partner whose names appear below confirm to the best of their knowledge that the Financial Statements for the year ended 31st December 2010 give a true and fair view of the assets, liabilities, financial position and profit or loss of the Limited Partnership as required by the applicable accounting standards. The Report of the General Partner gives a fair review of the development of the General Partnership's business, financial position and the important events that have occurred during the financial year and their impact on the Financial Statements. The principal risks and uncertainties faced by the Limited Partnership are disclosed in Note 13 of these financial statements.

Signed on behalf of the Board of Directors of the General Partner

Director:



Helen Grant
Director

Date:

27/04/11



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St Helier
Jersey JE4 8WQ
Channel Islands

5 St Andrew's Place
Charing Cross, St Helier
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Channel Islands

Independent auditor's report to the partners of Resparcs Funding II Limited Partnership

We have audited the financial statements of Resparcs Funding II limited partnership ("the Partnership") for the year ended 31 December 2010 which comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Partners' Equity and the Statement of Cash Flows for the year then ended and a summary of significant accounting policies and other explanatory notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards.

This report is made solely to the partners, as a body, in accordance with our terms of engagement as detailed in our letter of 3 February 2011. Our audit work has been undertaken so that we might state to the partners those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Partnership and the partners as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of general partners and auditors

As explained more fully in the Statement of General Partner's Responsibilities set out on page 3, the general partner is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Partnership's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the general partner; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the audited financial statements report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Partnership's affairs as at 31 December 2010 and its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards; and
- have been prepared in accordance with the requirements of the limited partnership agreement.



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Independent auditor's report to the partners of Resparcs Funding II Limited Partnership – continued

Emphasis of matter

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of disclosures made in notes 1, 2, 7, 8 and 16 regarding current market conditions that affected the HSH Nordbank Group.

In order to ensure there has been no material unrecorded impairment of the Silent Contribution, the directors of the General Partner have undertaken an assessment of the estimated future cash flows. This assessment has taken into consideration the ability of the counterparty, HSH Nordbank A.G., to continue as a going concern and to meet its obligations in the future with respect to the Silent Contribution described in note 2 and the obligations under the Capital Securities as described in note 7.

Should HSH Nordbank A.G. not continue as a going concern and therefore not be able to make these payments to the Partnership, then the carrying value of the Silent Contribution and Capital Securities will reduce further.

As disclosed in note 16, the ability of HSH Nordbank A.G. to continue as a going concern is dependent on whether the European Commission approves the stabilisation measures implemented by the Free Hanseatic City of Hamburg and the State of Schleswig-Holstein on a permanent basis.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the limited partnership agreement requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Partnership; or
- the Partnership's financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Eric J. Bertrand
for and on behalf of KPMG Channel Islands Limited
Chartered Accountants
27 April 2011

RESPARCS FUNDING II LIMITED PARTNERSHIP

STATEMENT OF FINANCIAL POSITION

AS AT 31ST DECEMBER 2010

	<u>Notes</u>	<u>2010</u>	<u>2009</u>
ASSETS			
NON-CURRENT ASSETS			
Loans and receivables	2	450,776,774	418,742,939
CURRENT ASSETS			
Trade and other receivables	3	-	20,178,625
Cash and cash equivalents	4	1,791	56,515
		1,791	20,235,140
TOTAL ASSETS		€ 450,778,565	€ 438,978,079
EQUITY AND LIABILITIES			
Capital and reserves			
Capital account	6	1,000	1,000
Capital contribution	6	1,330,249	-
Retained deficit		(2,500,712)	(2,697,086)
TOTAL PARTNERS' DEFICIT		(1,169,463)	(2,696,086)
Non-current liabilities			
Loans payable	7	-	20,775,955
Capital Securities	8	451,758,530	420,240,493
		451,758,530	441,016,448
Current liabilities			
Liquidity facility	7	147,800	-
Trade and other payables	5	41,698	657,717
		189,498	657,717
TOTAL EQUITY AND LIABILITIES		€ 450,778,565	€ 438,978,079

The financial statements were approved and authorised for issue by the Board of the General Partner on the 27th day of April 2011 and were signed on its behalf by:

Director:



Gareth Essex-Cater
Director

(The notes on pages 10 to 26 form part of these financial statements)

RESPARCS FUNDING II LIMITED PARTNERSHIP

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31ST DECEMBER 2010

	<u>Notes</u>	<u>2010</u>	<u>2009</u>
INCOME			
Deposit interest		2,600	722
German fiscal fees refund		-	278
		<hr/>	<hr/>
		2,600	1,000
OTHER INCOME			
Finance income:			
- write down of Capital Securities	8	-	79,759,507
- movement in carrying value of Silent Contribution	2	32,033,835	-
		<hr/>	<hr/>
TOTAL INCOME		32,036,435	79,760,507
EXPENDITURE			
Transaction fee		302	294
Loan interest		105,955	623,279
Support undertaking fees		121,668	121,667
Professional fees		2,048	4,226
Listing expenses		5,000	10,000
Administration fees - State Street		33,544	34,279
Management fees - State Street		4,013	3,948
Audit fees		21,000	20,792
ISE fees		112	224
Bank Charges		766	407
Expenses paid on behalf of General Partner		24,887	23,777
Unrecoverable Withholding tax		2,148	-
German fiscal fees payable		250	250
Unrealised loss on exchange		331	1,273
		<hr/>	<hr/>
		322,024	844,416
OTHER EXPENDITURE			
Finance costs:			
- impairment of Silent Contribution	2	-	81,257,061
- movement in carrying value of Capital Securities	8	31,518,037	-
		<hr/>	<hr/>
TOTAL EXPENDITURE		31,840,061	82,101,477
PROFIT/(LOSS) FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME			
		<hr/>	<hr/>
		€ 196,374	€ (2,340,970)
		<hr/>	<hr/>

Continuing operations

All items dealt with in arriving at the net profit for the year ended 31st December 2010 and the net loss for the year ended 31st December 2009 relate to continuing activities.

(The notes on pages 10 to 26 form part of these financial statements)

RESPARCS FUNDING II LIMITED PARTNERSHIP

STATEMENT OF CHANGES IN PARTNERS' EQUITY

FOR THE YEAR ENDED 31ST DECEMBER 2010

	Capital account	Capital contribution	Retained (deficit)	Total
	€	€	€	€
Balance at 1st January 2009	1,000	-	(356,116)	(355,116)
Loss for the year	-	-	(2,340,970)	(2,340,970)
Balance at 31st December 2009	<u>1,000</u>	<u>-</u>	<u>(2,697,086)</u>	<u>(2,696,086)</u>
Balance at 1st January 2010	1,000	-	(2,697,086)	(2,696,086)
Profit for the year	-	-	196,374	196,374
Additional capital contribution received from Limited Partner	-	1,330,249	-	1,330,249
Balance at 31st December 2010	<u>1,000</u>	<u>1,330,249</u>	<u>(2,500,712)</u>	<u>(1,169,463)</u>

(The notes on pages 10 to 26 form part of these financial statements)

RESPARCS FUNDING II LIMITED PARTNERSHIP

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31ST DECEMBER 2010

	<u>Notes</u>	<u>2010</u>	<u>2009</u>
Cash flows from operating activities			
Profit/(loss) for the year		196,374	(2,340,970)
(Decrease) / increase in trade and other payables		(616,019)	645,728
Decrease / (increase) in trade and other receivables		20,178,625	(1,371)
Deposit interest		(2,600)	(722)
(Gain) / loss on Silent Participation		(32,033,835)	81,257,061
Loss / (gain) attributable to RESPARCS Securities		31,518,037	(79,759,507)
Net cash inflow/(outflow) from operating activities		19,240,582	(199,781)
Cash flows from investing activities			
Deposit interest received		2,600	722
Net cash inflow from investing activities		2,600	722
Cash flows from financing activities			
Repayment of loan		(20,775,955)	-
Amount drawn under liquidity facility		147,800	-
Additional capital contribution		1,330,249	-
Net cash outflow from financing activities		(19,297,906)	-
Net decrease in cash and cash equivalents		(54,724)	(199,059)
Cash and cash equivalents at the beginning of the year		56,515	255,574
Cash and cash equivalents at the end of the year	4	€ 1,791	€ 56,515

(The notes on pages 10 to 26 form part of these financial statements)

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2010

1. ACCOUNTING POLICIES

The principal accounting policies applied in preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee. The more significant accounting policies used are set out below.

The financial statements have been prepared on the historical cost basis.

Going Concern

The partnership is currently in a net liability position, however the RESPARC Securities are limited in recourse and the liabilities of the Partnership are supported by HSH Nordbank Luxembourg under a Support Undertaking dated 26th May 2003. HSH Nordbank Luxembourg has undertaken to ensure that the Partnership will at all times be in a position to meet its obligations. The Partnership is dependent upon the ongoing support of HSH Nordbank Luxembourg, without which there would exist a material uncertainty concerning the Partnership's ability to continue as a going concern. The uncertainties of HSH Nordbank Luxembourg being able to meet these obligations are disclosed in Note 16.

Consequently, the General Partner has a reasonable expectation that the Partnership has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the General Partner continues to adopt the going concern basis in preparing these financial statements. Therefore, the financial statements do not include any adjustments that would result if the Partnership was unable to continue as a going concern.

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

The General Partner has assessed the impact, or potential impact, of all New Accounting Requirements. In the opinion of the General Partner, there are no mandatory New Accounting Requirements applicable in the current year that had any material effect on the reported performance, financial position, or disclosures of the Partnership.

Non-mandatory New Accounting Requirements not yet adopted

The following applicable new Accounting Standard has been issued. However, this New Accounting Requirement is not yet mandatory and has not yet been adopted by the Partnership. All other non-mandatory New Accounting Requirements are either not yet permitted to be adopted, or would have no material effect on the reported performance, financial position, or disclosures of the Partnership and consequently have neither been adopted, nor listed.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2010

1. ACCOUNTING POLICIES - (CONTINUED)

IFRS 9 (Replacement of IAS 39), "Financial Instruments: Recognition and Measurement"

IFRS 9 was first issued in November 2009, at which time it consisted of provisions relating to the recognition and measurement of financial assets only. In October 2010, IFRS 9 was amended to also include provisions relating to the recognition and measurement of financial liabilities and derecognition of financial instruments. Regardless of whether or not IFRS 9 is early adopted, the provisions of IAS 39 relating to impairments and hedging currently remain effective, as these matters have not yet been addressed within IFRS 9.

IFRS 9 is mandatory for accounting periods commencing from 1st January 2013, but early adoption is permitted at any time prior to this date. However, the Directors currently have no intention of early adopting this standard.

The main changes resulting from the replacement of IAS 39 by IFRS 9 are changes to the permitted classifications and subsequent measurement of financial instruments. Adoption of the standard is not expected to have an impact on the measurement basis of the Partnership's financial instruments since all of the Partnership's financial instruments are measured at amortised cost.

The requirements of IFRS 9 that relate to the classification and measurement of financial assets represent a significant change from the existing requirements of IAS 39, whilst those requirements relating to the classification and measurement of financial liabilities and derecognition of financial instruments remain substantially unchanged from the existing requirements of IAS 39, except as set out below.

IFRS 9 eliminates the existing IAS 39 categories for financial assets of: Held To Maturity; Available For Sale; Loans And Receivables; and, Fair Value Through Profit or Loss. However, it retains a mixed measurement model and establishes two primary measurement categories for financial assets: (i) amortised cost; and (ii) fair value. The basis for classification of a financial asset depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Unless the fair value option were to be elected for a particular financial asset, such a financial asset would be held at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

All other financial assets would be measured at fair value, with any movements in fair value being recognised in profit or loss, except for any movements in fair value relating to particular equity investments that are not held for trading and for which the fair value through other comprehensive income option has been elected, as described below.

For an investment in an equity investment that is not held for trading, IFRS 9 permits an irrevocable election, on initial recognition or initial adoption of IFRS 9, on an individual share-by-share basis, to present all fair value changes from such an investment in other comprehensive income. No amount recognised in other comprehensive income would ever be reclassified to profit or loss. However, dividends on such investments are recognised in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognised in profit or loss.

The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortised cost or fair value.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2010

1. ACCOUNTING POLICIES - (CONTINUED)

IFRS 9 (Replacement of IAS 39), "Financial Instruments: Recognition and Measurement" - (continued)

Under IFRS 9, an entity's accounting for and presentation of financial liabilities would remain substantially unchanged from that currently required under IAS 39. Currently, other than financial liabilities classified as held for trading, which are recognised at fair value through profit or loss, financial liabilities should be recognised at amortised cost using the effective interest method, except for financial liabilities that are designated upon initial recognition as at fair value through profit or loss either: (i) in order to eliminate or significantly reduce an accounting mismatch; or, (ii) if such financial liabilities form part of a group of financial liabilities that is managed and has performance evaluated on a fair value basis. Derivatives embedded in a financial liability measured at amortised cost that are not closely related to the host contract must be accounted for separately from such host contract.

However, for those financial liabilities that a company elects to record at fair value through income, other than loan commitments and financial guarantee contracts, IFRS 9 requires that fair value movements resulting from changes in the credit risk of the liability ("own credit") should be recorded in other comprehensive income, unless an accounting mismatch in income would result. If a mismatch in income would result, then all changes in fair value of the financial liability, including the "own credit" component, must be recognised in income. This assessment must be performed upon initial recognition of the financial liability and is irrevocable. Amounts recorded in other comprehensive income for changes in "own credit" will not be subsequently transferred into income.

The General Partner has made an assessment of the potential impact of early adoption of IFRS 9. In the General Partner's opinion, early adoption of IFRS 9 would have no material effect on the reported performance, financial position, or disclosures of the Partnership.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in accordance with IFRS requires the General Partner to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenditure during the year. Actual results could differ from those estimates.

The estimation of future cash flows from the Silent Participation and Capital Securities financial instruments required in applying IAS 39.A8 requires material assumptions which are associated with uncertainties. Among the key sources of uncertainty in estimation are the future profitability of HSH Nordbank Group, which depends specifically on the development of the economy and expected requirements by the European Union in connection with the approval of restructuring subsidiaries. Assumptions are also required about the exercise of termination or extension options associated with the transactions.

There were no significant areas of uncertainty or judgement in applying accounting policies except for the estimation of the fair values of the Partnership's financial instruments as set out below and in note 14. Due to the limited recourse nature of the Securities issued and the fact that all of the Partnership's financial instruments are measured at amortised cost, any differences between the estimated fair values and the realisable values of such financial instruments would be borne by the holders of the Securities and would have no net effect on the Partnership's overall position or results.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2010

1. ACCOUNTING POLICIES - (CONTINUED)

Loans and Receivables

The Partnership has classified its investments as loans and receivables under International Accounting Standard 39 'Financial Instruments: Recognition and Measurement' ("IAS 39"). Loans and receivables are initially recognised at cost on the date of purchase and subsequently at amortised cost using the effective interest rate basis in accordance with IAS39. Loans and receivables are derecognised when the rights to receive cash flows from the investments have expired or the Partnership has transferred substantially all risks and rewards of ownership.

Capital Securities

Capital Securities ("Securities") are recognised initially at issue proceeds less attributable transaction costs. Subsequent to initial recognition, Securities are stated at amortised cost using the effective interest method in accordance with IAS 39. The scheduled redemption amount of the Securities at the scheduled maturity dates will be the lesser of (i) the nominal amount invested; or (ii) the amount received by the Partnership in respect of the redemption of the Investments held by the Partnership.

The Capital Securities are derecognised when the obligations under the Capital Securities are discharged, cancelled or expired.

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

Impairment of financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. All impairment losses are recognised in the statement of comprehensive income. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

Effective interest rate

IAS 39.AG8 prescribes that the carrying amount of financial assets or liabilities shall be adjusted if an entity revises its estimates of payments or receipts. The recalculated carrying amount results from computing the present value of estimated future cash flows at the financial instruments original effective interest rate. The adjustments are recognised in the statement of comprehensive income as interest expense for financial assets and interest income for financial liabilities. In subsequent periods, if the carrying amounts of the financial instruments are adjusted again, the change will be reflected in the statement of financial position with the movement included in the statement of comprehensive income.

The application of IAS 39.AG8 has affected the carrying value of both the Silent Contribution and the RESPARCS II Securities for the years ended 31st December 2010 and 2009 since the estimates of payments or receipts related to these financial instruments have been revised. Applying IAS 39.AG8 involves substantial assumptions, which are accompanied by uncertainties.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2010

1. ACCOUNTING POLICIES - (CONTINUED)

Fair Value Estimation

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 is based on quoted market prices available at the balance sheet date.

The fair values presented in the financial statements are based on quotes from active markets.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Foreign currencies

a) Currency of domicile, functional currency and presentation currency

The currency of domicile is GBP (pounds sterling). Items included in the financial statements of the Partnership are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Euro, which is the Partnership's functional and presentation currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Employees

The Partnership had no employees during the year ended 31st December 2010 or the year ended 31st December 2009.

Profit participation income and deposit interest income

Profit participation income is accounted for on an effective interest rate basis. Deposit interest income is accrued for on an accruals basis.

Interest expense on Securities

Interest expense on securities is accounted for on an effective interest rate basis.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2010

1. ACCOUNTING POLICIES - (CONTINUED)

German withholding tax

Profit participation income is received net of German withholding tax ("WHT"). The Partnership is refunded the amount of WHT deducted as part of the Loan Agreement and therefore investment income is shown gross.

Distributions

Distributions to partners are recorded on the date they are declared by the General Partner.

Segmental reporting

An operating segment is a component of the Partnership that engages in business activities from which it may earn revenues and incur expenses. The General Partner performs regular reviews of the operating results of the Partnership and makes decisions using financial information at the entity level. Accordingly, the General Partner believes that the Partnership has only one operating segment (see Note 14).

The General Partner is responsible for ensuring that the Partnership carries out business activities in line with the transaction documents. The General Partner may delegate some or all of the day to day management of the business including the decisions to purchase and sell securities to other parties both internal and external to the Partnership. The decisions of such parties are reviewed on a regular basis to ensure compliance with the policies and legal responsibilities of the General Partner. Therefore the General Partner retains full responsibility as to the major allocation decisions of the Partnership.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2010

2. LOANS AND RECEIVABLES	2010	2009
Silent capital interest in the commercial enterprise of HSH		
As at 1st January	418,742,939	500,000,000
Impairment charge	-	(81,257,061)
Movement in carrying value	32,033,835	-
As at 31st December	€ 450,776,774	€ 418,742,939

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

Under the Participation Agreement the Partnership is entitled to receive Profit Participations on the Silent Contribution. Profit Participations accrue for Profit Periods running from 1st January to 31st December with the exception of the first Profit Period, which ran from 28th May 2003 to 31st December 2003 and the last Profit Period, which runs from 1st January of the year in which the Termination Date occurs and ends on the Termination Date.

Profit Participations are receivable annually in arrears on the later of (i) 30th June in the year following the end of the relevant Profit Period, and (ii) the business day following the date on which HSH Nordbank's annual financial statements have been adopted for the fiscal year of HSH Nordbank to which the relevant Profit Period relates. No Profit Participation shall accrue for the Profit Period in which the Termination Date occurs.

Profit Participations are received net of German withholding tax and any solidarity surcharge, if applicable (together "WHT"). European Equity Participation Management GmbH (the "Issuer Limited Partner") reclaims such WHT, to the extent that such amounts exceed the amount of German tax payable by the Issuer Limited Partner, and then pays the amounts reclaimed onto the Partnership under the terms of the Contribution Agreement. Under the Loan Agreement, HSH Nordbank is required to advance to the Partnership an amount equal to the WHT deducted. On this basis, the Partnership does not effectively suffer WHT on its profit participation, and accordingly the investment income is shown gross and the net amount of WHT suffered by the partnership is shown in the statement of comprehensive income.

At the outset of the transaction it was agreed between the Partnership and HSH Nordbank that the Profit Participations for each year would consist of two elements: 50% relating to the first half of the relevant Profit Period and 50% relating to the second half of the relevant Profit Period, with the second element being payable only if the Partnership still remains a Silent Partner until the payment date.

Following the first Profit Period, subject to HSH Nordbank having sufficient distributable profits, Profit Participations accrue on the book value of the Silent Contribution at a rate of 7.65% p.a.

The Participation is a perpetual instrument. The Silent Contribution will only be repaid to the Silent Partner after termination of the Participation Agreement by HSH Nordbank. HSH Nordbank may only terminate the Participation Agreement if either (i) tax or regulatory changes occur but in no case before 31st December 2008, or (ii) on or after 31st December 2011, with 2 years' prior notice to the Silent Partner (with termination becoming effective on or after 31st December 2013) so long as HSH Nordbank's solvency ratio exceeds 9% on a sustainable, unconsolidated or consolidated basis.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2010

2. LOANS AND RECEIVABLES - (CONTINUED)

On 18th December 2009, HSH Nordbank issued a Press Release stating that no coupon payments for the fiscal year 2009 will be made on silent participations and profit participation capital. Moreover, these hybrid instruments will participate in the balance sheet loss/ net loss. Therefore, Profit Participation income accrued as at 31st December 2009 was reduced to €nil to reflect the fact that no Profit Participation income would be received in 2010.

Pursuant to the EU Commission's requirements, HSH Nordbank was not permitted to make any payouts on profit participation capital and silent partnerships due to the net loss or balance sheet loss for the fiscal year 2009. Furthermore, such capital instruments have to participate in either the balance sheet loss or net loss for the fiscal year 2009. The amount of the loss participation regarding RESPARCS II was determined at 7.5%.

Due to the change in expected cash flows following the non payment of the Silent Participation in the period and the likelihood of the non payment of the Silent Participation interest in the future an impairment has been being recognised in relation to the Silent Contribution as at 31st December 2009. The written down value of the Silent Contribution as at 31st December 2009 based on future expected cash flows was €418,742,939.

As at 31st December 2010 the carrying value of the Silent Contribution based on expected future cash flows increased by €32,033,835 from €418,742,939 to €450,776,774.

On 31st March 2011, HSH Nordbank issued a Press Release stating that HSH Nordbank would not be servicing its Profit Participation certificates for 2010. Therefore, no Profit Participation income has been accrued as at 31st December 2010 to reflect the fact that no Profit Participation income will be received in 2011.

3. TRADE AND OTHER RECEIVABLES

	<u>2010</u>	<u>2009</u>
Withholding tax receivable	-	20,177,005
Prepayments	-	1,620
	<u> </u>	<u> </u>
€	-	€ 20,178,625

4. CASH AND CASH EQUIVALENTS

	<u>2010</u>	<u>2009</u>
HSH Nordbank - EUR account 53004300	-	902
HSH Nordbank - EUR account 53004295	1,791	55,613
	<u> </u>	<u> </u>
€	1,791	€ 56,515

5. TRADE AND OTHER PAYABLES

	<u>2010</u>	<u>2009</u>
State Street - Administration fees	11,313	8,184
Loan interest payable	83	623,279
Audit fee payable	29,272	25,254
Sundry creditor	1,000	1,000
HSH Nordbank - EUR account 53004300	30	-
	<u> </u>	<u> </u>
€	41,698	€ 657,717

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2010

5. TRADE AND OTHER PAYABLES - (CONTINUED)

As explained in Note 2, there has been no Profit Participation income receivable at 31st December 2010 and 31st December 2009. Since the Coupon payments on the RESPARC Securities are contingent on the receipt of Profit Participation income, no accrual has been made as at 31st December 2010 and 31st December 2009 in respect of interest payable. Please refer to Note 16 for further details.

6. PARTNERSHIP INTERESTS

The following information provides a summary of the main rights of the General Partner and the Limited Partner. It does not attempt to provide details of all circumstances, terms and conditions, and reference should also be made to the detailed provisions contained within the Limited Partnership Agreement dated 17th April 2003 and the Limited Partnerships (Jersey) Law 1994.

General Partner

The General Partner is European Capital Investment Opportunities Limited, incorporated in Jersey, Channel Islands. The General Partner's Partnership share is 0.01%.

Limited Partner

The Limited Partner is European Equity Participation Management GmbH, incorporated in Germany. The Limited Partner's Partnership share is 99.99%.

Partnership Profits and Losses

The profits and losses of the Partnership shall belong to or be borne by the Partners in their respective partnership share subject to the fact that the total liability of the Limited Partner shall not exceed the Capital Contribution of the Limited Partner (i.e. €1,000).

Additional Capital Contribution

During the year the Partnership received an additional capital contribution of € 1,330,249 from the Limited Partner. The additional capital contribution has been recognised in the statement of changes in partners equity.

7. LOANS PAYABLE

	<u>2010</u>	<u>2009</u>
Liquidity facility	€ 147,800	€ -
Loan from HSH Nordbank Luxembourg	€ -	€ 20,775,955

Liquidity Facility

The Partnership has been granted a Liquidity Facility up to a maximum amount of €22,000,000. The Liquidity Facility is available until the termination date of the Participation Agreement, on which date any amounts advanced under the Liquidity Facility will become repayable. Interest is payable quarterly in arrears at the 12 month Euribor rate plus a margin of 0.3%.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2010

7. LOANS PAYABLE - (CONTINUED)

Loan Agreement

The Partnership has been granted an unlimited facility under a Loan Agreement dated 26th May 2003 between the Partnership and HSH Nordbank Luxembourg. On each date on which a Profit Participation payment or Silent Contribution replenishment becomes due, HSH Nordbank Luxembourg is required to pay to the Partnership an advance in an amount corresponding to the withholding made by HSH Nordbank on account of either WHT on the relevant Profit Participation Payment, or Silent Contribution replenishment.

Pursuant to a Contribution Agreement dated 26th May 2003, the Limited Partner must pay to the Partnership all payments it receives from the German tax authorities on account of its Tax Refund Claim. The Partnership expects to repay such advances with the monies that it receives under the Contribution Agreement. Under the Loan Agreement the Partnership must use these monies to promptly repay outstanding advances. If such amounts received are insufficient to repay the advances in full, the liabilities of the Partnership are supported by HSH Nordbank Luxembourg under the Support Undertaking, as described in Note 9. The loan agreement was amended on 21st December 2007 and from 1st July 2007 the rate of interest is equivalent to 3% per annum. The Loan was repaid on 3rd October 2010.

8. CAPITAL SECURITIES ISSUED

	<u>2010</u>	<u>2009</u>
RESPARC Securities issued		
As at 1st January	420,240,493	500,000,000
Write down	-	(79,759,507)
Movement in carrying value	31,518,037	-
As at 31st December	<u>€ 451,758,530</u>	<u>€ 420,240,493</u>

On 28th May 2003 the Partnership issued €500,000,000 aggregate nominal amount of 7.5% Re-Engineered Silent Participation Assimilated Regulatory Capital (RESPARC) Securities (the "RESPARC Securities"), the proceeds from which have been used to acquire a silent capital interest (the "Silent Contribution") in the commercial enterprise of HSH Nordbank in the form of a "Stille Gesellschaft" under German law in the amount of €500,000,000. The nominal amount of each RESPARC Security is €1,000. The RESPARC Securities are listed on the Frankfurt Stock Exchange and the Official Segment of the stock market of Euronext Amsterdam N.V.

The RESPARC Securities bear interest at a rate of 7.5% p.a., accruing from 28th May 2003, payable annually in arrears on the same date as the relevant Profit Participations are received by the Partnership. It is expected that the normal coupon date will be 30th June of each year, commencing 30th June 2004. Coupon payments are contingent on the Partnership's actual receipt of Profit Participation payments from HSH Nordbank under the Participation Agreement and advances from HSH Nordbank Luxembourg under the Loan Agreement.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2010

8. CAPITAL SECURITIES ISSUED - (CONTINUED)

The RESPARC Securities are perpetual securities, having no mandatory maturity date. However, the Preferred Securities may be redeemed, at the option of HSH Nordbank, on the date on which the Silent Contribution is repaid in accordance with the Participation Agreement. The redemption amount will equal the Repayment Amount required to be paid by HSH Nordbank under the Participation Agreement. The RESPARC Securities will also be redeemable, in whole but not in part, at the option of the Partnership, on 30th June 2009 and annually thereafter. However, such early termination is only permissible if financing of the redemption of the RESPARC Securities at their nominal amount, plus any interest accrued thereon, has been secured through the issuance of similar debt securities or in any other way.

The liabilities of the Partnership under the RESPARC Securities are supported by HSH Nordbank Luxembourg under the Support Undertaking, as described in Note 9.

On 18th December 2009, HSH Nordbank issued a Press Release stating that no coupon payments for the fiscal year 2009 will be made on silent participations and profit participation capital. Moreover, these hybrid instruments will participate in the balance sheet loss/ net loss. Since Coupon payments on the RESPARCS Securities are contingent on the receipt of Profit Participation income, the accrual for coupons payable as at 31st December 2009 had therefore been reduced to €nil.

Pursuant to the EU Commission's requirements, HSH Nordbank is not permitted to make any payouts on profit participation capital and silent partnerships in the event of a net loss or balance sheet loss for the fiscal year 2009. Furthermore, such capital instruments have to participate in either the balance sheet loss or net loss for the fiscal year 2009. The amount of the loss participation regarding RESPARCS II was determined at 7.5%.

Due to the change in expected cash flows following the non payment of the Silent Participation in the period and the likelihood of the non payment of the Silent Participation interest in the future a gain of €79,759,507 had been recognised in relation to the RESPARC Securities as at 31st December 2009. The written down value of the RESPARCS Securities as at 31st December 2009 based on future expected cash flows was €420,240,493.

As at 31st December 2010 the carrying value of the RESPARCS Securities based on expected future cash flows increased by €31,518,037 from €420,240,493 to €451,758,530.

9. SUPPORT UNDERTAKING AND SUPPORT UNDERTAKING FEES

The liabilities of the Partnership are supported by HSH Nordbank Luxembourg under a Support Undertaking dated 26th May 2003. HSH Nordbank Luxembourg has undertaken to ensure that the Partnership will at all times be in a position to meet its obligations. HSH Nordbank Luxembourg's payment obligations under the Support Undertaking are subordinated to all senior and subordinated debt obligations of HSH Nordbank Luxembourg in the same manner as HSH Nordbank's payment obligations under the Participation Agreement are subordinated. A Support Undertaking Fee is payable by the Partnership to HSH Nordbank Luxembourg, quarterly in arrears on 30th March; 30th June, 30th September and 30th December, calculated at 0.32% p.a. on a nominal amount of €37,500,000.

10. TAXATION

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

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2010

11. ULTIMATE CONTROLLING PARTY

In the opinion of the General Partner, based on the terms of the Limited Partnership Agreement, European Equity Participation Management GmbH, incorporated in Germany, is considered to be the controlling party of the Limited Partnership. However the General Partner acknowledges that, under IFRS, HSH Nordbank is considered to be the ultimate controlling party of the Limited Partnership.

12. RELATED PARTIES

H.C. Grant, G.P. Essex-Cater, S.M. Vardon and D.M. Godwin are directors of the General Partner. G.P. Essex-Cater is a shareholder of Maurant Limited. Each of H.C. Grant, G.P. Essex-Cater, S.M. Vardon and D.M. Godwin was an employee of a subsidiary of Maurant Limited. Affiliates of Maurant Limited provided administrative services to the Company at commercial rates. The Partnership is consolidated within the HSH Nordbank group and therefore HSH Nordbank and affiliates are related parties in all transactions.

On 1st April 2010, Maurant Limited sold its interest in certain affiliates to State Street Corporation ("SSC"). Each of H.C. Grant, G.P. Essex-Cater, S.M. Vardon and D.M. Godwin who are directors of the General Partner, is an employee of a subsidiary of SSC. Affiliates of SSC now provide administrative services to the Company at commercial rates.

Fees incurred with State Street (Jersey) Limited and Maurant & Co. Limited during the year in respect of administration and management fees are detailed on the face of the statement of comprehensive income. Amounts owed to State Street at the year end are disclosed in Note 5 to the financial statements. Amounts owed to and from HSH Nordbank and affiliates are disclosed in notes 2, 3, 4,5, 7, 8.

Expenses paid on behalf of the General Partner during the year are also disclosed on the face of the statement of comprehensive income.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2010

13. FINANCIAL INSTRUMENTS

As stated in the General Partner's Report the principal activity of the Partnership is limited to participation in financing activities arranged for HSH Nordbank. The Partnership has issued the RESPARCS Securities. The proceeds from the issue of the RESPARCS Securities have been used to acquire a silent capital interest (the "Silent Contribution") in the commercial enterprise of HSH Nordbank. Therefore the role of financial assets and financial liabilities is central to the activities of the Partnership; the financial liabilities provided the funding to purchase the Partnership's financial assets. Financial assets and liabilities provide the majority of the assets and liabilities.

The strategies used by the Partnership in achieving its objectives regarding the use of its financial assets and liabilities were set when the Partnership entered into the transactions. The Partnership has attempted to match the properties of its financial liabilities to its assets to avoid significant elements of risk generated by mismatches of investment performance against its obligations, together with any maturity, liquidity or interest rate risk.

Short term trade receivables and trade payables have been excluded from the following disclosures:

Interest rate risk

The Partnership finances its operations through the issue of the RESPARCS Securities. The coupons payable on the RESPARCS Securities are matched by the Profit Participations receivable on the Silent Contribution. Accordingly, the General Partner believes that there is no significant net interest rate risk to the Partnership as the interest rates are effectively fixed.

The interest rate profile of the Partnership's financial assets and financial liabilities is as follows:

		<u>2010</u>		<u>2009</u>	
	Interest charging basis	Effective interest rate %	Amount	Effective interest rate %	Amount
Financial assets:					
Silent Contribution	Fixed	nil	450,776,774	nil	418,742,939
Cash and cash equivalents	Floating	1.45	1,791	1.28	56,515
			<u>€ 450,778,565</u>		<u>€ 418,799,454</u>
Financial liabilities:					
Loan Agreement	Fixed	n/a	-	3.00	20,775,955
Liquidity facility	Floating	0.001	147,800	n/a	-
RESPARCS Securities	Fixed	nil	451,758,530	nil	420,240,493
			<u>€ 451,906,330</u>		<u>€ 441,016,448</u>

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2010

13. FINANCIAL INSTRUMENTS - (CONTINUED)

Currency risk

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

Credit risk

Credit risk arises from the risk that HSH Nordbank and affiliates may not repay, if requested, all amounts due to the partnership under the Silent Partnership Agreement and any withholding tax receivable. On the basis that the RESPARCS Securities issued by the Partnership are limited recourse notes, with the amount payable to Note holders limited to the amounts received under the Silent Participation Agreement, in the opinion of the General Partner this does not represent a net material risk to the Partnership.

On 31st March 2011, HSH Nordbank issued a Press Release stating that HSH Nordbank would not be servicing its Profit Participation certificates for the fiscal year 2010.

During 2009 and following the press release and review of HSH Nordbank's performance for the year ended 31st December 2009 a write down has been recognised in relation to the RESPARCS Securities as at 31st December 2009, with the value of the securities reduced to €420,240,493. For further details in respect of current market conditions and the credit quality of the financial assets held by the Partnership please refer to Note 16.

On 1st April 2009 Moody's downgraded the RESPARCS Securities from Baa1 to Caa1 and has maintained a Caa1 rating with a negative outlook.

Fair values

The fair value of the RESPARCS Securities has been obtained from quoted market prices. In the General Partner's opinion there is no material difference between the fair value of the Silent Contribution and the fair value of the RESPARCS Securities.

In the General Partner's opinion there is no material difference between the fair value and carrying value of the other short term receivables and payables.

	<u>2010</u>		<u>2009</u>	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Silent Contribution	450,776,774	175,000,000	418,742,939	105,000,000
Cash and cash equivalents	1,791	1,791	56,515	56,515
Trade and other receivables	-	-	20,178,625	20,178,625
	<u>€ 450,778,565</u>	<u>€ 175,001,791</u>	<u>€ 438,978,079</u>	<u>€ 125,235,140</u>

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2010

13. FINANCIAL INSTRUMENTS - (CONTINUED)

Fair values - (continued)

	<u>2010</u>		<u>2009</u>	
	Carrying value	Fair value	Carrying value	Fair value
Financial liabilities:				
Loan Agreement	-	-	20,775,955	20,775,955
Liquidity facility	147,800	147,800	-	-
Trade payables	41,698	41,698	657,717	657,717
RESPARCS Securities	451,758,530	175,000,000	420,240,493	105,000,000
	<u>€ 451,948,028</u>	<u>€ 175,189,498</u>	<u>€ 441,674,165</u>	<u>€ 126,433,672</u>

The General Partner has reviewed the fair value of the RESPARCS Securities as at 31st December 2010 and considers that the market price reflects current adverse conditions affecting the banking sector as a whole and is not representative of the likely termination value of the RESPARCS Securities.

The effects of market conditions and the future expected profitability of HSH Nordbank on the fair value of the RESPARCS Securities are further explained in Note 16.

Sensitivity analysis

As disclosed above, in the General Partner's opinion, there is no material difference between the fair value of the RESPARCS Securities and the fair value of the Silent Contribution. From the perspective of the Limited Partnership, any change in the fair value of the RESPARCS Securities would be matched by an equal and opposite change in the fair value of the Silent Contribution. Consequently the Limited Partnership is not exposed to any net market price risk.

Also as disclosed above, in the General Partner's opinion, there is no material net interest rate risk to the Limited Partnership, nor is there any significant net currency rate risk to the Limited Partnership.

IFRS 7 requires disclosure of "a sensitivity analysis for each type of market risk to which the entity is exposed at the reporting date, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date." As stated, whilst the financial instruments held by the Limited Partnership are separately exposed to interest rate risk and market price risk, the Limited Partnership itself is not exposed to market risk overall. Therefore, in the General Partner's opinion, no sensitivity analysis is required to be disclosed.

In addition, as the RESPARCS Securities and the Silent Contribution are stated at amortised cost less impairment, any changes in fair value of the RESPARCS Securities and/or the Silent Contribution would have no effect on profit or loss and/or equity.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2010

13. FINANCIAL INSTRUMENTS - (CONTINUED)

Maturity of financial assets and liabilities

The maturity profile of the Partnership's financial assets and financial liabilities is as follows:

	<u>2010</u>		<u>2009</u>	
	Financial Assets	Financial Liabilities	Financial Assets	Financial Liabilities
Less than one year	1,791	189,498	20,235,140	21,433,672
In more than five years	500,000,000	500,000,000	500,000,000	500,000,000
	<u>€ 500,001,791</u>	<u>€ 500,189,498</u>	<u>€ 520,235,140</u>	<u>€ 521,433,672</u>

In the opinion of the General Partner, given the above maturity profile, the Limited Partnership is not exposed to significant net liquidity risk as any shortfall will be met by the Liquidity Facility.

Capital management

The Limited Partnership's transactions are designed to enable the Limited Partnership to pay its liabilities as they fall due only, without realising a significant return on capital. The level of interest income receivable on the Participation and interest expense payable on the Capital Securities are fixed and were established on formation of the Limited Partnership in order that the Limited Partnership realises a margin that is sufficient to pay the ongoing operational expenses of the Limited Partnership and any loan interest payable.

As further explained in Note 15, no profit participation income was received in 2009 or 2010 and therefore no margin was realised. The operational expenses, loan interest and support undertaking fees of the Partnership will be met by HSH Luxembourg under the Support Undertaking Agreement.

The Limited Partnership is not subject to externally imposed capital requirements.

14. OPERATING SEGMENTS

Geographical information

All of the Limited Partnership's revenues are generated from external sources which are analysed as follows:

	<u>2010</u>	<u>2009</u>
United Kingdom	€ 2,600	€ 722

Non-current assets

The Limited Partnership does not have non-current assets other than the Participation.

Major investment company

The Limited Partnership's profit participation income is derived solely from HSH Nordbank.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2010

15. KEY MANAGEMENT PERSONNEL

The key management personnel have been identified as being the Directors of the General Partner. The emoluments of the key management personnel are paid by the ultimate controlling party and other related parties who make no recharge to the Limited Partnership.

It is therefore not possible to make a reasonable apportionment of their emoluments in respect of the Limited Partnership. Accordingly, no emoluments in respect of the Directors of the General applicable to the Limited Partnership have been disclosed.

16. CURRENT MARKET CONDITIONS

During the previous financial year, the effect of the global financial market crisis continued, resulting in a number of the major banks in both the private and regional banking sectors in Germany, including HSH Nordbank, reporting significant losses for the year ended 31st December 2009.

The continued existence of HSH Nordbank AG including its subsidiary HSH Nordbank Luxemburg as a going concern depends on whether the European Commission approves the stabilisation measures implemented by the Free and Hanseatic City of Hamburg and the State of Schleswig-Holstein on a permanent basis. It is also necessary that the approval should only be tied to the requirements which can be implemented within the framework of reasonable business plan, and in particular, which will not conflict the stabilisation measures that relieve the regulatory capital of HSH Nordbank AG.

On 31st March 2011, HSH Nordbank issued a Press Release stating that HSH Nordbank would not be servicing its Profit Participation certificates for 2011.

As a result, the Profit Participation income accrued as at 31st December 2009 in the financial statements of the Partnership was reduced to €nil to reflect the fact that no Profit Participation income will be received during 2010. Since Coupon payments on the RESPARCS Securities are contingent on the receipt of Profit Participation income, the accrual for coupons payable as at 31st December 2009 and 2010 has also been reduced to €nil.

Following the press release an impairment review was conducted to ensure that the financial assets are not carried at more than the recoverable amount. After reviewing the performance of HSH Nordbank for the year ended 31st December 2009 and considering the fact that no coupon payments were received in two consecutive years the Directors of the General Partner decided that there is objective evidence indicating that one or more events have had a negative effect on the estimated future cash flows of that asset. Consequently an impairment was recognised as at 31st December 2009. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

As at 31st December 2010 the carrying value of the Silent Contribution increased by €32,033,835 to €450,776,774 (31st December 2009: €418,742,939). The RESPARCS Securities increased by €31,518,037 to €451,758,530 (31st December 2009: €420,240,493).

As at 31st December 2010 the fair value of the RESPARCS Securities was 35% (31st December 2009: 21% of the nominal value).

The receipt of Profit Participation income in future years is dependent on the future profits of HSH Nordbank, which cannot currently be determined. Whilst there is an expectation that HSH Nordbank will return to profitability in the future, when this may occur cannot at present be predicted.