

RESPARCS FUNDING II LIMITED PARTNERSHIP

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2012

RESPARCS FUNDING II LIMITED PARTNERSHIP

TABLE OF CONTENTS

	<u>Pages</u>
Report of the General Partner	2 and 3
Independent Auditors' report	4 and 5
Statement of financial position	6
Statement of comprehensive income	7
Statement of changes in partners' equity	8
Statement of cash flows	9
Notes to the financial statements	10 to 27

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 2012.

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 RESPARC Securities.

ACTIVITIES

The principal activity of the Partnership is to participate in financing activities arranged for HSH Nordbank Aktiengesellschaft ("HSH Nordbank" or the "Bank"). 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.

As at 31st December 2012 the fair value of the RESPARC Securities was 24.797% (2011: 21.667%) of the nominal value.

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 Partner's assessment of going concern review is disclosed in Note 1.

RESULTS FOR THE YEAR

The loss for the year amounted to €1,560,567 (2011: €199,394).

In 2012 there was a change in accounting policy resulting in a restatement. The Silent Contribution has been reclassified as an available-for-sale financial asset, previously classified within loans and receivables. Please refer to Note 1 for further details.

DIRECTORS

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

G.P. Essex-Cater

H.C. Grant

D.M. Godwin (resigned 13th August 2012)

S.M. Vardon

INDEPENDENT AUDITORS

KPMG Channel Islands Limited have expressed their willingness to continue in office.

RESPARCS FUNDING II LIMITED PARTNERSHIP

REPORT OF THE GENERAL PARTNER - (CONTINUED)

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

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

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

- * select suitable accounting policies and then apply them consistently;
- * make judgements and estimates that are reasonable and prudent;
- * state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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.

With regard to Regulation 2004/109/EC of the European Union (the "EU Transparency Directive"), the Directors of the General Partner confirm to the best of their knowledge that the Financial Statements for the year ended 31st December 2012 give a true and fair view of the assets, liabilities, financial position and profit or loss of the Partnership as required by the applicable accounting standards. The Report of the General Partner gives a fair review of the development of the 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 Partnership are disclosed in Note 13 of these financial statements.

The General Partner confirm they have complied with the above requirements throughout the year and subsequently.



Signed on behalf of
European Capital Investment Opportunities Limited
General Partner
22 Grenville Street
St. Helier
Jersey, Channel Islands
JE4 8PX

Date: 18/4/13



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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 2012 which comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Partners' Equity and Statement of Cash Flows and the related 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 our terms of engagement as detailed in our letter of 20 November 2012. 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 Partners 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 statement 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.



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

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 2012 and of 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.

Emphasis of matter

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of disclosures made in notes 1, 2, 8, 13 and 17 regarding current market conditions that have affected the HSH Nordbank Group's ability to continue as a going concern, and the estimation of the expected future cash flows receivable on the Silent Participation and payable on the Capital Securities.

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.

KPMG Channel Islands Limited

KPMG Channel Islands Limited
Chartered Accountants

18 April 2013


RESPARCS FUNDING II LIMITED PARTNERSHIP

STATEMENT OF FINANCIAL POSITION

AS AT 31ST DECEMBER 2012

	<u>Notes</u>	<u>2012</u>	<u>2011</u> (restated)	<u>2010</u> (restated)
ASSETS				
NON-CURRENT ASSETS				
Available-for-sale financial assets	2	123,985,000	108,335,000	175,000,000
CURRENT ASSETS				
Trade and other receivables	3	171,808	3,409	-
Cash and cash equivalents	4	1,269	1,574	1,791
		173,077	4,983	1,791
TOTAL ASSETS		€ 124,158,077	€ 108,339,983	€ 175,001,791
EQUITY AND LIABILITIES				
Capital and reserves				
Capital account	6	1,000	1,000	1,000
Capital contribution	6	1,501,807	1,330,249	1,330,249
Retained deficit		(4,260,673)	(2,700,106)	(2,500,712)
Revaluation reserve		(238,539,618)	(342,676,696)	(275,776,774)
TOTAL PARTNERS' DEFICIT		(241,297,484)	(344,045,553)	(276,946,237)
NON-CURRENT LIABILITIES				
Capital Securities	8	364,823,927	451,992,239	451,758,530
CURRENT LIABILITIES				
Liquidity facility	7	577,973	363,909	147,800
Trade and other payables	5	53,661	29,388	41,698
		631,634	393,297	189,498
TOTAL LIABILITIES		365,455,561	452,385,536	451,948,028
TOTAL EQUITY AND LIABILITIES		€ 124,158,077	€ 108,339,983	€ 175,001,791

The financial statements were approved and authorised for issue by the Board of the General Partner on the 18 day of April 2013 and were signed on its behalf by:

Director:  **Helen Grant**
Director
(The notes on pages 10 to 27 form part of these financial statements)

RESPARCS FUNDING II LIMITED PARTNERSHIP

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31ST DECEMBER 2012

	<u>Notes</u>	<u>2012</u>	<u>2011</u> (restated)
FINANCE INCOME			
Finance income:			
- movement in carrying value of Silent Contribution	2	-	234,922
- movement in carrying value of Capital Securities	8	87,168,312	-
TOTAL INCOME		<u>87,168,312</u>	<u>234,922</u>
EXPENDITURE			
Transaction fee		303	299
Support undertaking fees		122,333	121,333
Professional fees		3,479	2,289
Listing expenses		2,500	2,500
Administration fees - State Street		41,718	40,621
Management fees - State Street		4,355	4,063
Audit fees		28,509	3,092
ISE fees		239	240
Bank charges		307	187
Expenses paid on behalf of General Partner		27,683	20,909
German fiscal fees payable		450	250
Unrealised loss on exchange		118	46
		<u>231,994</u>	<u>195,829</u>
FINANCE EXPENDITURE			
Finance costs:			
- movement in carrying value of Silent Contribution	2	88,487,078	-
- movement in carrying value of Capital Securities	8	-	233,709
Loan interest	7	9,807	4,778
		<u>88,496,885</u>	<u>238,487</u>
TOTAL EXPENDITURE		<u>88,728,879</u>	<u>434,316</u>
LOSS FOR THE YEAR		<u>(1,560,567)</u>	<u>(199,394)</u>
OTHER COMPREHENSIVE INCOME/(LOSS)			
Change in fair value of available-for-sale financial assets	2	104,137,078	(66,899,922)
TOTAL COMPREHENSIVE INCOME /(LOSS)		<u>€ 102,576,511</u>	<u>€ (67,099,316)</u>

(The notes on pages 10 to 27 form part of these financial statements)

RESPARCS FUNDING II LIMITED PARTNERSHIP

STATEMENT OF CHANGES IN PARTNERS' EQUITY

FOR THE YEAR ENDED 31ST DECEMBER 2012

	<u>Capital account</u>	<u>Capital contribution</u>	<u>Retained deficit</u>	<u>Revaluation reserve</u>	<u>Total</u>
	€	€	€	€	€
Balance at 1st January 2012	1,000	1,330,249	(2,700,106)	(342,676,696)	(344,045,553)
Comprehensive income:					
- Loss for the year	-	-	(1,560,567)	-	(1,560,567)
- Other comprehensive income for the year	-	-	-	104,137,078	104,137,078
Additional capital contribution received from Limited Partner	-	171,558	-	-	171,558
Balance at 31st December 2012	<u>1,000</u>	<u>1,501,807</u>	<u>(4,260,673)</u>	<u>(238,539,618)</u>	<u>(241,297,484)</u>
Balance at 1st January 2011 (as originally stated)	1,000	1,330,249	(2,500,712)	-	(1,169,463)
Adjustment resulting from change in accounting policy	-	-	-	(275,776,774)	(275,776,774)
Balance at 1st January 2011 (as restated)	<u>1,000</u>	<u>1,330,249</u>	<u>(2,500,712)</u>	<u>(275,776,774)</u>	<u>(276,946,237)</u>
Comprehensive income:					
- Loss for the year	-	-	(199,394)	-	(199,394)
- Other comprehensive loss for the year	-	-	-	(66,899,922)	(66,899,922)
Balance at 31st December 2011	<u>1,000</u>	<u>1,330,249</u>	<u>(2,700,106)</u>	<u>(342,676,696)</u>	<u>(344,045,553)</u>

(The notes on pages 10 to 27 form part of these financial statements)

RESPARCS FUNDING II LIMITED PARTNERSHIP

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31ST DECEMBER 2012

	<u>Note</u>	<u>2012</u>	<u>2011</u>
Cash flows from operating activities			
Loss for the year		(1,560,567)	(199,394)
Increase/(decrease) in trade and other payables		24,273	(12,310)
Decrease/(increase) in trade and other receivables		3,159	(3,409)
Loss/(gain) on Silent Participation		88,487,078	(234,922)
(Gain)/loss attributable to RESPARC Securities		(87,168,312)	233,709
Net cash outflow from operating activities		<u>(214,369)</u>	<u>(216,326)</u>
Cash flows from financing activities			
Amount drawn under liquidity facility		214,064	216,109
Net cash inflow from financing activities		<u>214,064</u>	<u>216,109</u>
Net decrease in cash and cash equivalents		(305)	(217)
Cash and cash equivalents at the beginning of the year		1,574	1,791
Cash and cash equivalents at the end of the year	4	€ <u>1,269</u>	€ <u>1,574</u>

(The notes on pages 10 to 27 form part of these financial statements)

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2012

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, except for available-for-sale financial assets which are stated at fair value.

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 17.

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 period that had any material effect on the reported performance, financial position, or disclosures of the Partnership. Consequently, no mandatory New Accounting Requirements are listed. The Partnership has not adopted any New Accounting Requirements that are not mandatory.

Non-mandatory New Accounting Requirements not yet adopted

The following applicable New Accounting Requirements have been issued. However, these New Accounting Requirements are not yet mandatory and have 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 2012

1. ACCOUNTING POLICIES - (CONTINUED)

Non-mandatory New Accounting Requirements not yet adopted - (continued)

IAS 1, "Presentation of Financial Statements" (amendments)

The main change resulting from these amendments that is relevant to the Partnership is a requirement for entities to group items presented in other comprehensive income ("OCI") on the basis of whether they may potentially be reclassified to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

The revised standard is effective for accounting periods commencing on or after 1st July 2012, but early adoption is permitted at any time prior to this date.

IFRS 9, "Financial Instruments"

IFRS 9 addresses the recognition, classification and measurement of financial assets and financial liabilities. It is the IASB's intention that IFRS 9 will replace IAS 39 in its entirety. The IASB has adopted a phased approach to completion of the overall standard. When the first phase was published in November 2009, IFRS 9 addressed only the classification and measurement of financial assets. In October 2010, requirements for the classification and measurement of financial liabilities were published. The phases covering impairment methodology and hedge accounting are scheduled for completion prior to the mandatory effective date.

IFRS 9 requires financial assets to be classified into two measurement categories: (i) those measured at fair value; and, (ii) those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to changes in an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

IFRS 9 is effective for accounting periods commencing on or after 1st January 2015, but early adoption is permitted at any time prior to this date. The General Partner has not yet assessed the full potential impact of IFRS 9, but intend to do so once the standard is complete. The Partnership intends to adopt IFRS 9 no later than the mandatory effective date.

IFRS 13 "Fair Value Measurement"

IFRS 13 was issued in May 2011 and aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting, but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

IFRS 13 is effective for accounting periods commencing on or after 1st January 2013, but early adoption is permitted at any time prior to this date.

The General Partner has made an assessment of the potential impact of early adoption of all of the standards listed above, except for IFRS 9, as stated above. In the General Partner's opinion, early adoption of any of these standards would have no material effect on the reported performance, financial position, or disclosures of the Partnership.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2012

1. ACCOUNTING POLICIES - (CONTINUED)

Change in accounting policy – classification of the Silent Contribution as an available-for-sale (“AFS”) financial asset (previously classified within loans and receivables (“LAR”))

IAS 39.9(c) states that the category of LAR excludes financial assets "for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale". It was previously the interpretation of the General Partner that the Silent Contribution is effective for an indefinite term and it was anticipated that it would be terminated by the issuer of the Participation Agreement only if the "Book Value" at the time of the termination notice were to be not less than the "Nominal Amount". Therefore, it was anticipated that upon termination the entire Nominal Amount would be repaid, except in the event of credit deterioration of the issuer of the Participation Agreement. Consequently, the Silent Contribution was classified within LAR upon initial recognition.

It is the General Partner's understanding that, although different interpretations of the relevant provisions of IAS 39 may have existed in the market place as at the date of initial recognition and subsequently, its interpretation of IAS 39.9(c) was previously quite widely accepted. However, in November 2012 the General Partner became aware that a body known as the "EECS" (the EECS is a forum which brings together all EU National Enforcers of financial information) had agreed upon a different interpretation of the relevant provisions of IAS 39. Under the EECS' interpretation, financial instruments with coupons that are conditional upon sufficient distributable profits at the issuer and with principal amounts that may be reduced by the occurrence of losses at the issuer are required to be classified as AFS financial assets by the holders of such financial assets. In the General Partner's opinion, this represents a change in accounting practice requiring a consequent change in classification of the Silent Contribution in the financial statements of the Partnership.

Accordingly, the comparative amounts for 2011 and 2010 have been restated as follows:

Effect of change in Statement of Financial Position	<u>2011</u>	<u>2010</u>
Increase in available-for-sale financial assets	€ 108,335,000	€ 175,000,000
Decrease in loans and receivables	€ (451,011,696)	€ (450,776,774)
Decrease in revaluation reserve	€ (342,676,696)	€ (275,776,774)
Effect of change in Statement of Comprehensive Income	<u>2011</u>	
Increase in other comprehensive loss	€ (66,899,922)	

Available-for-sale financial assets

The Partnership's investment in the Participation Agreement has been classified as an available-for-sale financial asset. Available-for-sale financial assets are measured initially at fair value plus transaction costs that are directly attributable to the acquisition of the asset. Subsequent to initial recognition they are measured at fair value and changes therein, other than impairment losses and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in the Statement of Comprehensive Income. When an investment is derecognised, the cumulative gain or loss in equity is transferred to the income statement.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2012

1. ACCOUNTING POLICIES - (CONTINUED)

Impairment

In accordance with IAS 39, a financial asset is assessed as at each reporting date to determine whether there is any objective evidence that it is impaired. Such evidence that a financial asset is impaired includes observable data that may come to the attention of the General Partner about any of the following examples of loss events: significant financial difficulty of the issuer or obligor; a breach of contract, such as a default or delinquency in interest or principal payments, granting to the borrower a concession that the lender would not otherwise consider; it becomes probable that the borrower will enter bankruptcy, administration or other analogous financial reorganisation; or, the disappearance of an active market for that financial asset because of financial difficulties.

On 6th February 2013, an announcement was made by HSH Nordbank relating to financial planning which will result in net losses for the business years 2013 and 2014. The financial results from the years 2015 to 2017 will then be used to write up hybrid instruments to par value. Therefore in the General Partner's opinion, no such loss events have occurred during the year ended 31st December 2012 or subsequently and the reductions in the nominal amount of the Silent Participation are not considered to be permanent. Also the non-payment of coupons is not considered to be an impairment trigger as there is no obligation to pay such coupons in the event that HSH Nordbank has insufficient distributable profits. Accordingly, no impairment is required to be recognised on the Partnership's investment in the Participation Agreement.

However, although no impairment has been recognised, an adjustment to the carrying value of the financial assets and liabilities has been made in the statement of comprehensive income in accordance with IAS 39.AG8 as further detailed in the "effective interest rate" accounting policy.

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.AG8 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. Furthermore the General Partner considers that the volume and frequency of trading is indicative of an active liquid market for valuation purposes. 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 based on quoted price of the RESPARC Securities as set out below and further described in Note 13. Due to the limited recourse nature of the Securities issued, 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 2012

1. ACCOUNTING POLICIES - (CONTINUED)

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.

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 year ended 31st December 2012 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.

Fair value estimation

IFRS 7 "Financial Instruments: Disclosures" ("IFRS 7") establishes a fair value hierarchy that prioritises the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under IFRS 7 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.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e., the fair value of the consideration given or received). The fair value of financial instruments traded in active markets (such as the quoted investments) is based on quoted market prices at the end of the reporting period.

The estimated fair values of the Silent Participation and the Capital Securities are disclosed in Note 13.

Periodic movements in the estimated fair value of the Capital Securities are not recognised within these financial statements owing to the measurement basis being amortised cost.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2012

1. ACCOUNTING POLICIES - (CONTINUED)

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 2012 or 31st December 2011.

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.

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.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2012

1. ACCOUNTING POLICIES - (CONTINUED)

Distributions

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

Segmental reporting

An operating segment is a component of the Partnership that engages in business activities from which it may earn revenues and incur expenses. The General Partner, as the chief operating decision-maker, performs regular reviews of the operating results of the Partnership and makes decisions using financial information at the entity level. Accordingly, the General Partner believes that the Partnership has only one operating segment (see Note 15).

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

2. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>2012</u>	<u>2011</u> (restated)
Silent capital interest in the commercial enterprise of HSH Nordbank		
<u>Carrying value:</u>		
Opening balance	451,011,696	450,776,774
Movement during the year	(88,487,078)	234,922
Closing balance	<u>362,524,618</u>	<u>451,011,696</u>
<u>Fair value adjustment:</u>		
Opening balance	(342,676,696)	(275,776,774)
Movement during the year	104,137,078	(66,899,922)
Closing balance	<u>(238,539,618)</u>	<u>(342,676,696)</u>
Fair value	<u>€ 123,985,000</u>	<u>€ 108,335,000</u>

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.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2012

2. AVAILABLE-FOR-SALE FINANCIAL ASSETS - (CONTINUED)

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.

Pursuant to the EU Commission's requirements, HSH Nordbank is not permitted to make any payouts on profit participation capital and silent partnerships due to the Bank's net loss or balance sheet loss.

On 6th February 2013, a Press Release was issued stating that HSH Nordbank would not be servicing its Profit Participation certificates until 2017, therefore no Profit Participation income has been accrued as at 31st December 2012 or as at 31st December 2011. Profit participation accrual is expected to resume during 2017, with the Profit Participation income payable in June 2018. (2011: it was expected that Profit Participation income would be payable in June 2014).

Details regarding the fair value are disclosed in Note 13.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2012

3. TRADE AND OTHER RECEIVABLES	<u>2012</u>	<u>2011</u>
Capital contribution	171,558	-
Prepayments	250	3,409
	<u>€ 171,808</u>	<u>€ 3,409</u>

In 2013 the Partnership received an additional capital contribution of €171,558 from the Limited Partner which became due following an additional payment of a tax refund to the Limited Partner. Please refer to Note 6 for further details.

4. CASH AND CASH EQUIVALENTS	<u>2012</u>	<u>2011</u>
HSH Nordbank - EUR account 53004300	420	420
HSH Nordbank - EUR account 53004295	849	1,154
	<u>€ 1,269</u>	<u>€ 1,574</u>

5. TRADE AND OTHER PAYABLES	<u>2012</u>	<u>2011</u>
State Street fees	11,344	11,133
Loan interest payable	14,668	4,861
Audit fee payable	25,777	12,095
Sundry payable	1,000	1,000
Transaction fee payable	308	299
Professional fees payable	564	-
	<u>€ 53,661</u>	<u>€ 29,388</u>

As explained in Note 2, there has been no Profit Participation income receivable at 31st December 2012 and 31st December 2011. 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 2012 and 31st December 2011 in respect of interest payable. Please refer to Note 17 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.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2012

6. PARTNERSHIP INTERESTS - (CONTINUED)

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 2010 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. In 2013 the Partnership received an additional capital contribution of €171,558 from the Limited Partner which became due following an additional payment of a tax refund to the Limited Partner. The additional capital contribution has been recognised in the statement of changes in partners' equity and as a receivable as at 31st December 2012.

7. LOANS PAYABLE

	<u>2012</u>	<u>2011</u>
Liquidity facility	€ 577,973	€ 363,909

The Partnership was granted a Liquidity Facility up to a maximum amount of €22,000,000. This was reduced to a maximum amount of €2,000,000 in December 2008. The Liquidity Facility is available until the termination date of the Participation Agreement, on which date any amounts advanced under the Liquidity Facility will become repayable. Interest is payable quarterly in arrears at the 12 month Euribor rate plus a margin of 0.3%.

8. CAPITAL SECURITIES ISSUED

	<u>2012</u>	<u>2011</u>
RESPARC Securities issued		
Opening balance	451,992,239	451,758,530
Movement in carrying value	(87,168,312)	233,709
Closing balance	€ 364,823,927	€ 451,992,239

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2012

8. CAPITAL SECURITIES ISSUED - (CONTINUED)

On 28th May 2003 the Partnership issued €500,000,000 aggregate nominal amount of 7.5% Re-Engineered Silent Participation Assimilated Regulatory Capital (RESPARC) Securities (the "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.

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.

Hybrid instruments will participate in the balance sheet loss/ net loss. Coupon payments on the RESPARC Securities are contingent on the receipt of Profit Participation income. Pursuant to the EU Commission's requirements, HSH Nordbank is not permitted to make any payouts on profit participation capital and silent partnerships due to the Bank's net loss or balance sheet loss.

Any 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 result in an equal and opposite effect on the RESPARC Securities. The RESPARC Securities holders therefore bear the ultimate risk of the ability of HSH Nordbank to make payments on the Silent Participation.

The expected cash flows payable on the RESPARC Securities was revised at the balance sheet date to the effect that interest payments would not be made until 2018 (2011: 2014) which resulted in an adjustment to the carrying value based on the original effective interest rate.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2012

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.

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/were Directors of the General Partner. Each of H.C. Grant, G.P. Essex-Cater, S.M. Vardon and D.M. Godwin is/was an employee of a subsidiary of State Street Corporation, affiliates of which provide administrative services to the Partnership at commercial rates.

The Partnership is consolidated within the HSH Nordbank group and therefore HSH Nordbank and affiliates are related parties in all transactions.

Fees incurred with State Street (Jersey) 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 and 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 2012

13. FINANCIAL INSTRUMENTS

As stated in the Report of the General Partner the principal activity of the Partnership is limited to participation in financing activities arranged for HSH Nordbank. The Partnership has issued the RESPARC Securities. The proceeds from the issue of the RESPARC 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 financial liabilities provide the majority of the assets and liabilities.

The strategies used by the Partnership in achieving its objectives regarding the use of its financial assets and financial liabilities were set when the Partnership entered into the transactions. The Partnership has attempted to match the properties of its financial liabilities to its financial assets to 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 and other receivables and payables have been excluded from the following disclosures:

Interest rate risk

The Partnership finances its operations through the issue of the RESPARC Securities. The coupons payable on the RESPARC 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>2012</u>		<u>2011</u> (restated)		<u>2010</u> (restated)
	Interest charging basis	Effective interest rate %	Amount	Effective interest rate %	Amount	Effective interest rate %	Amount
Financial assets:							
Silent Contribution	Fixed	7.65%	123,985,000	7.65%	108,335,000	7.65%	342,170,086
Cash and cash equivalents	Floating	nil	1,269	nil	1,574	nil	1,791
			€ 123,986,269		€ 108,336,574		€ 342,171,877
Financial liabilities:							
Liquidity facility	Floating	1.70%	577,973	1.31%	363,909	0.06%	147,800
RESPARC Securities	Fixed	7.50%	364,823,927	7.50%	451,992,239	7.50%	451,758,530
			€ 365,401,900		€ 452,356,148		€ 451,906,330

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2012

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 RESPARC Securities issued by the Partnership are limited recourse in nature, with the amount payable to the 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 25th August 2011, HSH Nordbank issued a Press Release stating that HSH Nordbank would not be servicing its Profit Participation certificates for the fiscal year 2011. On 6th February 2013, a Press Release was issued stating that HSH Nordbank would not be servicing its Profit Participation certificates until 2017. Therefore, no Profit Participation income has been accrued as at 31st December 2012 to reflect the fact that no Profit Participation income will be received in June 2013. 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 17.

On 1st April 2009 Moody's downgraded the RESPARC Securities from Baa1 to Caa1. The RESPARC Securities now has a long term credit rating of Ca from Moody's (2011: Caa1).

HSH Nordbank AG has a long term credit rating of Baa2 from Moody's.

Determination of fair value

The fair values disclosed in these financial statements have been determined for the sole purpose of ensuring compliance with IFRS 7, which requires disclosure of such fair values in these financial statements.

Fair value is defined in accordance with IAS 39 as the price at which a financial instrument can be traded between two informed, willing and independent parties who are under no obligation to deal. The fair value of financial instruments may be determined on the basis of listed prices on an active market ("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 a market price is available at which a transaction could be performed or has been performed at, or reasonably close to, the reporting date. This is generally the case for securities traded on liquid markets. This method has been applied to measure the fair value of the RESPARC Securities, which are listed on the Frankfurt Stock Exchange and the Official Segment of the stock market of Euronext Amsterdam N.V.

The mark-to-matrix method is used to determine fair value where no market price is available under the mark-to-market method, but where a fair value can be determined either from the market prices or transaction prices of comparable financial instruments, or a mark-to-model valuation can be performed where all significant parameters are observable in the market.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2012

13. FINANCIAL INSTRUMENTS - (CONTINUED)

Determination of fair value - (continued)

The fair value is determined by a mark-to-model valuation using a suitable model (e.g. discounted cash flow method) if a reliable valuation cannot be derived using either of the mark-to-market or mark-to-matrix methods.

The fair value of the RESPARC 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 RESPARC Securities. Therefore the quoted market price of the RESPARC Securities represents the best available objective estimate of the fair value of the Silent Contribution.

	<u>2012</u>		<u>2011</u> (restated)	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Silent Contribution	123,985,000	123,985,000	108,335,000	108,335,000
Cash and cash equivalents	1,269	1,269	1,574	1,574
Trade and other receivables	171,808	171,808	3,409	3,409
	<u>€ 124,158,077</u>	<u>€ 124,158,077</u>	<u>€ 108,339,983</u>	<u>€ 108,339,983</u>
Financial liabilities:				
Liquidity facility	577,973	577,973	363,909	363,909
Trade and other payables	53,661	53,661	29,388	29,388
RESPARC Securities	364,823,927	123,985,000	451,992,239	108,335,000
	<u>€ 365,455,561</u>	<u>€ 124,616,634</u>	<u>€ 452,385,536</u>	<u>€ 108,728,297</u>

The General Partner has reviewed the fair value of the RESPARC Securities as at 31st December 2012 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 RESPARC Securities.

The effects of market conditions and the future expected profitability of HSH Nordbank on the fair value of the RESPARC Securities are further explained in Note 17.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2012

13. FINANCIAL INSTRUMENTS - (CONTINUED)

Sensitivity analysis

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

Fair value hierarchy

The Partnership's investment designated as available-for-sale financial asset has been classified within Level 2 as the fair value is indirectly obtained from a quoted price with no adjustments.

Maturity of financial assets and liabilities

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

	<u>2012</u>		<u>2011</u>	
	Financial Assets	Financial Liabilities	Financial Assets	Financial Liabilities
Less than one year	173,077	631,634	4,983	393,297
In more than five years	500,000,000	500,000,000	500,000,000	500,000,000
	<u>€ 500,173,077</u>	<u>€ 500,631,634</u>	<u>€ 500,004,983</u>	<u>€ 500,393,297</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.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2012

14. CAPITAL MANAGEMENT

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

As further explained in Note 17, no profit participation income was received in 2011 or 2012 and therefore no margin was realised. The operational expenses, loan interest and support undertaking fees of the Partnership will be provided by funding received from HSH Luxembourg under the Support Undertaking Agreement by virtue of the liquidity facility.

There were no changes to the Partnership's approach to capital management during the year.

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

15. OPERATING SEGMENTS

Geographical information

All of the Partnership's revenues and expenses are generated from external sources. The Partnership did not generate any revenue during the year (2011: €nil). The Partnership's expenses amounted to €231,994 (2011: €195,829).

Non-current assets

The Partnership does not have non-current assets other than the available-for-sale financial asset.

Major investment company

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

16. 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 Partnership.

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

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2012

17. CURRENT MARKET CONDITIONS

HSH Nordbank

The creditworthiness of the counterparty to the Silent Participation, HSH Nordbank AG Group, has been under close scrutiny during the year. During the year 2012, the bank had a credit rating of Baa2, as issued by Moody's. However, the credit rating assigned to HSH Nordbank AG Group was downgraded to Baa3 in 2013.

Finally, the assumption made relating to the HSH Nordbank AG Group's ability to continue as a going concern was based on the agreement reached by the governments of the federal states of Hamburg and Schleswig-Holstein regarding the increase in the guarantee being confirmed by the parliaments of both federal states. Furthermore, the guarantee agreement is to be adjusted in such a way that the capital protection clause remains fully effective even after the method for determining capital is converted to IFRS. If the EU Commission determines that the replenishment of the guarantee providing the capital relief or a change in the guarantee agreement constitutes a new state aid situation that is subject to approval, it is essential that EU approval be obtained and such approval is only tied to conditions that can be implemented within the framework of a sound economic business strategy. Furthermore, the regulatory effectiveness of the strengthening of the capital ratios achieved by the increase in the guarantee should not be jeopardised. It is also necessary that the acceptance by market participants and other relevant stakeholders required for the successful implementation of HSH Nordbank AG's business model be preserved even in the event of potential new conditions being imposed.

Profit Participation

On 6th February 2013, HSH Nordbank issued a Press Release stating that HSH Nordbank would not be servicing its Profit Participation certificates until 2017, therefore no Profit Participation income has been accrued as at 31st December 2012 or as at 31st December 2011. Sufficient profits are expected to be available in 2017 for the Profit Participation income to become payable in June 2018.

Coupon payments on the RESPARC Securities are contingent on the receipt of Profit Participation income, and therefore the accrual for coupons payable as at 31st December 2012 and 31st December 2011 has also been reduced to €nil.

Impact on financial assets and financial liabilities

After reviewing the performance of HSH Nordbank for the two consecutive years to the year ended 31st December 2012, 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 Silent Contribution resulting in a reduction in the carrying value (see Note 2 for further details).

As at 31st December 2012 the fair value of the RESPARC Securities was 24.797% (2011: 21.667%) of the nominal value.

18. SUBSEQUENT EVENTS

In February 2013, the Partnership received €171,558 from the Limited Partner as a result of a tax refund to the Limited Partner. This has been treated in the financial statements as a receivable and additional capital contribution as at 31st December 2012.