

RESPARCS FUNDING II LIMITED PARTNERSHIP
ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2013

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 2013.

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 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 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 2013 the fair value of the RESPARC Securities was 31.011% (2012: 24.797%) 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, notwithstanding the net liability position of the Partnership at the year end. Detailed information on the General Partner's assessment of going concern is disclosed in Note 1.

RESULTS FOR THE YEAR

The profit for the year amounted to €134,264 (2012: loss of €1,560,567).

DIRECTORS

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

G.P. Essex-Cater

H.C. Grant

S.M. Vardon (resigned 1st June 2013)

S.J. Hopkins (appointed 1st June 2013)

REGISTERED OFFICE

The registered office changed from 22 Grenville Street, St Helier, Jersey, Channel Islands, JE4 8PX to 13 Castle Street, St Helier, Jersey, Channel Islands, JE4 5UT with effect from 1st June 2013.

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.

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

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 confirm to the best of their knowledge that the audited financial statements for the year ended 31st December 2013 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 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.



Helen Grant
Director

Signed on behalf of
European Capital Investment Opportunities Limited
General Partner
13 Castle Street
St. Helier
Jersey, Channel Islands
JE4 5UT

Date: 10/4/14



KPMG Channel Islands Limited
37 Esplanade
St Helier
Jersey JE4 8WQ
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 2013 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 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 with our terms of engagement as detailed in our letter of 26 November 2013. 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 Report of the General Partner to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



KPMG Channel Islands Limited
37 Esplanade
St Helier
Jersey JE4 8WQ
Channel Islands

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 2013 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 - going concern and carrying values of Silent Participation and Capital Securities

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. We bring this matter to your attention due to its significance.

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; or
- we have not received all the information and explanations we require for our audit.

Steven Hunt
for and on behalf of KPMG Channel Islands Limited
Chartered Accountants

10 April 2014

The maintenance and integrity of the websites on which these financial statements are published is the responsibility of third parties; the work carried out by auditors does not involve consideration of these matters and accordingly, KPMG Channel Islands Limited accepts no responsibility for any changes that may have occurred to the financial statements or our audit report since 10 April 2014. KPMG Channel Islands Limited has carried out no procedures of any nature subsequent to 10 April 2014 which in any way extends this date.

Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. The general partner shall remain responsible for establishing and controlling the process for doing so, and for ensuring that the financial statements are complete and unaltered in any way.

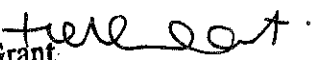
RESPARCS FUNDING II LIMITED PARTNERSHIP

STATEMENT OF FINANCIAL POSITION

AS AT 31ST DECEMBER 2013

	<u>Notes</u>	<u>2013</u>	<u>2012</u>
ASSETS			
NON-CURRENT ASSETS			
Available-for-sale financial assets	2	155,055,000	123,985,000
CURRENT ASSETS			
Trade and other receivables	3	3,591	171,808
Cash and cash equivalents	4	172,522	1,269
		<u>176,113</u>	<u>173,077</u>
TOTAL ASSETS		<u>€ 155,231,113</u>	<u>€ 124,158,077</u>
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Capital account	6	1,000	1,000
Capital contribution	6	1,501,807	1,501,807
Retained deficit		(4,126,409)	(4,260,673)
Revaluation reserve		(235,202,751)	(238,539,618)
TOTAL PARTNERS' DEFICIT		<u>(237,826,353)</u>	<u>(241,297,484)</u>
NON-CURRENT LIABILITIES			
Capital securities issued	8	392,185,721	364,823,927
CURRENT LIABILITIES			
Loans payable	7	815,555	577,973
Trade and other payables	5	56,190	53,661
		<u>871,745</u>	<u>631,634</u>
TOTAL LIABILITIES		<u>393,057,466</u>	<u>365,455,561</u>
TOTAL EQUITY AND LIABILITIES		<u>€ 155,231,113</u>	<u>€ 124,158,077</u>

The financial statements were approved and authorised for issue by the Board of the General Partner on the 10th day of April 2014 and were signed on its behalf by:

Director: 
Helen Grant
Director

(The notes on pages 10 to 29 form part of these financial statements)

RESPARCS FUNDING II LIMITED PARTNERSHIP

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31ST DECEMBER 2013

	<u>Notes</u>	<u>2013</u>	<u>2012</u>
INCOME			
Unrealised gain on exchange		950	-
FINANCE INCOME			
Finance income:			
- movement in carrying value of Silent Contribution	2	27,733,133	-
- movement in carrying value of Capital Securities	8	-	87,168,312
TOTAL INCOME		27,734,083	87,168,312
EXPENDITURE			
Transaction fee		293	303
Support undertaking fees		121,667	122,333
Legal and professional fees		10,581	5,979
Administration fees		44,600	41,718
Management fees		4,131	4,355
Audit fees		23,043	28,509
ISE fees		234	239
Bank charges		306	307
Expenses paid on behalf of General Partner and Trust		27,196	27,683
German fiscal fees payable		250	450
Unrealised loss on exchange		-	118
		232,301	231,994
FINANCE EXPENDITURE			
Finance costs:			
- movement in carrying value of Silent Contribution	2	-	88,487,078
- movement in carrying value of Capital Securities	8	27,361,794	-
Loan interest		5,724	9,807
TOTAL EXPENDITURE		27,599,819	88,728,879
PROFIT/(LOSS) FOR THE YEAR		134,264	(1,560,567)
OTHER COMPREHENSIVE INCOME			
<i>Items that may be reclassified subsequently from other comprehensive income to profit or loss</i>			
Change in fair value of available-for-sale financial assets	2	3,336,867	104,137,078
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	€	3,471,131	€ 102,576,511

Other comprehensive income

There were no items that may not be reclassified subsequently from other comprehensive income to profit or loss.

(The notes on pages 10 to 29 form part of these financial statements)

RESPARCS FUNDING II LIMITED PARTNERSHIP

STATEMENT OF CHANGES IN PARTNERS' EQUITY

FOR THE YEAR ENDED 31ST DECEMBER 2013

	<u>Capital account</u>	<u>Capital contribution</u>	<u>Retained deficit</u>	<u>Revaluation reserve</u>	<u>Total</u>
	€	€	€	€	€
Balance at 1st January 2013	1,000	1,501,807	(4,260,673)	(238,539,618)	(241,297,484)
Comprehensive income:					
- Profit for the year	-	-	134,264	-	134,264
- Other comprehensive income for the year	-	-	-	3,336,867	3,336,867
Balance at 31st December 2013	<u>1,000</u>	<u>1,501,807</u>	<u>(4,126,409)</u>	<u>(235,202,751)</u>	<u>(237,826,353)</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>

(The notes on pages 10 to 29 form part of these financial statements)

RESPARCS FUNDING II LIMITED PARTNERSHIP

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31ST DECEMBER 2013

	<u>Notes</u>	<u>2013</u>	<u>2012</u>
Cash flows from operating activities			
Total comprehensive income for the year		134,264	(1,560,567)
Increase in trade and other payables		2,529	24,273
(Increase)/decrease in trade and other receivables		(3,341)	3,159
(Gain)/loss on Silent Contribution	2	(27,733,133)	88,487,078
Loss/(gain) attributable to RESPARC Securities	8	27,361,794	(87,168,312)
		<hr/>	<hr/>
Net cash outflow from operating activities		(237,887)	(214,369)
Cash flows from financing activities			
Amount drawn under liquidity facility		237,582	214,064
Additional capital contribution	6	171,558	-
		<hr/>	<hr/>
Net cash inflow from financing activities		409,140	214,064
		<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents		171,253	(305)
Cash and cash equivalents at the beginning of the year		1,269	1,574
		<hr/>	<hr/>
Cash and cash equivalents at the end of the year	4	€ 172,522	€ 1,269
		<hr/> <hr/>	<hr/> <hr/>

(The notes on pages 10 to 29 form part of these financial statements)

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2013

1. ACCOUNTING POLICIES

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

Basis of accounting

These financial statements, which give a true and fair view, have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued 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.

These 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. This is caused primarily by the accounting policy mismatch between the Silent Contribution (at fair value) and the RESPARC Securities (at amortised cost). The General Partner notes that, with the exception of a small interest margin, the terms and conditions of the RESPARC Securities mirror those of the Silent Contribution and the Partnership's cash inflows and outflows in respect of these instruments are matched. The General Partner further notes the existence of the liquidity facility (see note 7), the limited recourse nature of the RESPARC Securities 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, except for the amendments to IAS 1 and IFRS 13 referred to below, there are no mandatory New Accounting Requirements applicable in the current year that had any material effect on the reported performance, financial position, or disclosures of the Partnership. Consequently, no other mandatory New Accounting Requirements are listed. The Partnership has not early adopted any New Accounting Requirements that are not mandatory.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2013

1. ACCOUNTING POLICIES - (CONTINUED)

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 - (continued)

IAS 1, "Presentation of Financial Statements" (amendments) – effective for accounting periods commencing on or after 1st July 2012

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). This amendment has been reflected in the statement of comprehensive income. The amendments do not address which items are presented in OCI.

IFRS 13, "Fair Value Measurement" – effective for accounting periods commencing on or after 1st January 2013

IFRS 13 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 IFRS. 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 IFRS.

The principal changes affecting the Partnership's disclosures are as follows:

- for each class of financial assets and financial liabilities not measured at fair value in the statement of financial position but for which the fair value is disclosed, an entity shall disclose (i) the level of the fair value hierarchy within which the fair value measurements are categorised in their entirety (Level 1, 2 or 3); (ii) a description of the valuation technique(s) and the inputs used in the fair value measurement. If there has been a change in valuation technique (e.g. changing from a market approach to an income approach or the use of an additional valuation technique), the entity shall disclose that change and the reason(s) for making it;
- for financial assets and financial liabilities that are measured at fair value in the statement of financial position after initial recognition, where such fair value measurements are categorised within Level 2 or Level 3 of the fair value hierarchy, a requirement for the Partnership to disclose: (i) a description of the valuation technique(s) and the inputs used in the fair value measurement. If there has been a change in valuation technique (e.g. changing from a market approach to an income approach or the use of an additional valuation technique), the entity shall disclose that change and the reason(s) for making it; and (ii) for fair value measurements categorised within Level 3 of the fair value hierarchy, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (e.g. when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2013

1. ACCOUNTING POLICIES - (CONTINUED)

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 - (continued)

IFRS 13, "Fair Value Measurement" – effective for accounting periods commencing on or after 1st January 2013 - (continued)

- for financial assets and financial liabilities that are measured at fair value in the statement of financial position after initial recognition, where such fair value measurements are categorised within Level 3 of the fair value hierarchy: (i) a requirement for the Partnership to disclose the amount of the total gains or losses for the period included in profit or loss that is attributable to the change in unrealised gains or losses relating to those assets and liabilities held at the end of the reporting period and the line item(s) in profit or loss in which those unrealised gains or losses are recognised; and (ii) a requirement for the Partnership to disclose a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement.

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.

IFRS 9, "Financial Instruments" (Replacement of IAS 39 — "Financial Instruments: Recognition and Measurement") – tentatively effective 1st January 2018

IFRS 9 is an incomplete standard that currently addresses the recognition, classification and measurement of financial assets and financial liabilities and may be adopted to replace the relevant parts of IAS 39. Those parts of IAS 39 that relate to impairment have not yet been addressed by IFRS 9. It is the IASB's stated intention that IFRS 9 will ultimately replace IAS 39 in its entirety.

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 an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2013

1. ACCOUNTING POLICIES - (CONTINUED)

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

IFRS 9, "Financial Instruments" (Replacement of IAS 39 — "Financial Instruments: Recognition and Measurement") – tentatively effective 1st January 2018 - (continued)

There is currently a tentative effective date of 1st January 2018 for application of IFRS 9. The IASB has stated that a mandatory effective date will be determined once IFRS 9 is nearer to completion, but early adoption is permitted at any time. 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 when such date may have been determined.

Use of estimation and judgements

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 estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future years affected.

The significant areas of uncertainty and critical judgements are as follows: (i) fair value estimation: further details in relation to the key assumptions made in determining fair value are disclosed in the "Fair value estimation" accounting policy and note 13; (ii) recognition and measurement of impairment: further details are disclosed in the "impairment" accounting policy; and, (iii) revision of expected cash flows: further details are disclosed in the "effective income adjustments" accounting policy.

Available-for-sale ("AFS") financial assets

The Partnership's investment in the Participation Agreement has been classified as an AFS financial asset. AFS 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 are recognised in other comprehensive income, except for impairment losses, changes to carrying values resulting from the revision of estimated future receipts (see 'Effective income adjustments' below) and foreign exchange gains and losses which are recognised directly as profit or loss in the statement of comprehensive income. When an AFS financial asset derecognised, the cumulative gain or loss in equity is transferred to the profit or loss in the statement of comprehensive income.

AFS financial assets are derecognised when the rights to receive cash flows from the investments have expired or the Company has transferred substantially all risks and rewards of ownership. Any cumulative revaluation reserve attributable to derecognised AFS financial assets are transferred from other comprehensive income to the profit or loss in the statement of comprehensive income.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2013

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. An impairment is recognised if, and only if, there is objective evidence of impairment as a result of one or more 'loss events' that has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. 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: failure to receive interest on the Silent Contribution; reduction or write down of principal, notional or redemption amounts; notice of default or bankruptcy; other indications that HSH Nordbank is unlikely to meet its obligations under the Silent Contribution as they fall due, such as a credit rating downgrade; or a significant and prolonged decrease in the fair value of the Silent Contribution.

When considering whether or not objective evidence of impairment of the Silent Contribution exists, the General Partner has considered and noted the following; i) the Partnership is not currently receiving interest on the Silent Contribution. However, whilst the failure to receive interest on the Silent Contribution during the financial period or subsequently may be an indicator of impairment, it is unlikely that this alone would give rise to an impairment adjustment for a financial instrument such as the Silent Contribution. The Silent Contribution represents a subordinate interest in HSH Nordbank, whose right to receive profit participations is contingent upon HSH Nordbank having sufficient distributable profits and in the absence of such, the Partnership is not entitled to receive any interest. Thus, the General Partner does not consider a failure to receive interest as a loss event when considered in isolation; ii) the Silent Contribution is a perpetual instrument and the holder has no right to demand redemption, with redemption being at the option of HSH Nordbank; there is presently no indication that the full principal amount of the Silent Contribution will not be repaid eventually; and iii) upon profits arising at HSH Nordbank, the reductions in the carrying value of the Silent Contribution would be written back and consequently are not considered to be permanent. Accordingly, no impairment has been recognised on the Silent Contribution.

On 6th February 2013, an announcement was made by HSH Nordbank relating to financial planning which is expected to result in net losses for the business years 2013 and 2014. The financial results from the years 2015 to 2017, if any, will then be used to write up the hybrid instruments to par value. Therefore in the General Partner's opinion, no loss events have occurred during the year ended 31st December 2013 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 income adjustments" accounting policy.

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 Silent Contribution held by the Partnership.

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

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2013

1. ACCOUNTING POLICIES - (CONTINUED)

Capital Securities - (continued)

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

Effective income adjustments

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 instrument's original effective interest rate. The adjustments are recognised in the statement of comprehensive income as a component of finance income or finance costs as appropriate. Due to the forecast suspension, until 2018, of Profit Participations from the Partnership's AFS financial assets (note 2) and interest payments on the Partnership's capital securities issue (note 8), the carrying amounts of these financial instruments have been adjusted accordingly. 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 affected the carrying value of both the Silent Contribution and the RESPARC Securities for the year ended 31st December 2012. Applying IAS 39.AG8 involves substantial assumptions, which are accompanied by uncertainties. The following assumptions have been used in the IAS 39.AG8 calculations; (i) payment of annual coupons are assumed to recommence from 30th June 2018; (ii) repayment of principal is assumed to take place on 31st December 2033; and (iii) the cash flows have been discounted at the original effective interest rates for each instrument, being 7.65% for the Silent Contribution and 7.50% for the RESPARC Securities.

Fair value estimation

IFRS 13 "Fair Value Measurement" ("IFRS 13") defines a fair value hierarchy that prioritises the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under IFRS 13 are as follows:

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities at the valuation date;

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices), including inputs from markets that are not considered to be active;

Level 3 – Inputs that are not based upon observable market data.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "active" and/or "observable" requires significant judgment by the Partnership. The Partnership considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, provided by multiple, independent sources that are actively involved in the relevant market. The categorisation of a financial instrument within the hierarchy is based upon the pricing transparency of the financial instrument and does not necessarily correspond to the Partnership's perceived risk inherent in such financial instrument.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2013

1. ACCOUNTING POLICIES - (CONTINUED)

Fair value estimation - (continued)

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

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

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

The Directors of the General Partner apply transfers between levels in the fair value hierarchy as at the end of each reporting period.

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) Functional currency and presentation currency

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 2013 or during the year ended 31st December 2012.

Profit participation income and deposit interest income

Profit participation income is accounted for on an effective interest rate basis. Deposit interest income is accounted 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 2013

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, 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>2013</u>	<u>2012</u>
Silent capital interest in the commercial enterprise of HSH Nordbank		
Carrying amount based on effective interest rate AG8 calculation:		
Opening balance	362,524,618	451,011,696
Effective income adjustment	27,733,133	(88,487,078)
Closing balance	<u>390,257,751</u>	<u>362,524,618</u>
Fair value adjustment:		
Opening balance	(238,539,618)	(342,676,696)
Movement during the year	3,336,867	104,137,078
Closing balance	<u>(235,202,751)</u>	<u>(238,539,618)</u>
Fair value	<u>€ 155,055,000</u>	<u>€ 123,985,000</u>
Notional amount outstanding at the year end	<u>€ 500,000,000</u>	<u>€ 500,000,000</u>

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2013

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

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.

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.

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 2013 or as at 31st December 2012. Profit participation accrual is expected to resume during 2017, with the Profit Participation income payable in June 2018.

Details regarding how the fair value of the Silent Contribution has been estimated is disclosed in Note 13.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2013

3. TRADE AND OTHER RECEIVABLES	<u>2013</u>	<u>2012</u>
Capital contribution	-	171,558
Prepayments	3,591	250
	<u>€ 3,591</u>	<u>€ 171,808</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>2013</u>	<u>2012</u>
HSH Nordbank - EUR account 53004300	420	420
HSH Nordbank - EUR account 53004295	172,102	849
	<u>€ 172,522</u>	<u>€ 1,269</u>

5. TRADE AND OTHER PAYABLES	<u>2013</u>	<u>2012</u>
Administration fees payable	11,659	11,344
Loan interest payable	20,392	14,668
Audit fee payable	22,838	25,777
Sundry payable	1,000	1,000
Transaction fee payable	301	308
Professional fees payable	-	564
	<u>€ 56,190</u>	<u>€ 53,661</u>

As explained in Note 2, there has been no Profit Participation income receivable at 31st December 2013 and 31st December 2012. 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 2013 and 31st December 2012 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 2013

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 a capital contribution of €1,330,249 from the Limited Partner. 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 was a receivable as at 31st December 2012.

7. LOANS PAYABLE

	<u>2013</u>	<u>2012</u>
Liquidity facility	€ 815,555	€ 577,973

The Partnership was granted, by HSH Nordbank AG, 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>2013</u>	<u>2012</u>
RESPARC Securities issued		
Opening balance	364,823,927	451,992,239
Movement in carrying value	27,361,794	(87,168,312)
Closing balance	€ 392,185,721	€ 364,823,927
Notional amount outstanding at the year end	€ 500,000,000	€ 500,000,000

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2013

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.

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 liabilities of the Partnership under the RESPARC Securities are supported by HSH Nordbank Luxembourg under the Support Undertaking, as described in Note 9. The holders of the RESPARC Securities are therefore also exposed to the risk of default of HSH Nordbank Luxembourg.

The expected cash flows payable on the RESPARC Securities was last revised as at 31st December 2012 to the effect that interest payments would not be made until 2018 which resulted in an adjustment to the carrying value based on the original effective interest rate.

As at 31st December 2013 the fair value of the RESPARC Securities was 31.011% (2012: 24.797%) of the nominal value.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2013

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 Partnership. However, the General Partner acknowledges that, under IFRS, HSH Nordbank is considered to be the ultimate controlling party of the Partnership.

12. RELATED PARTIES

Each of H.C. Grant, G.P. Essex-Cater, S.M. Vardon and S.J. Hopkins is or was a Director of the General Partner. Each of H.C. Grant, G.P. Essex-Cater and S.M. Vardon was an employee of a subsidiary of State Street Corporation ("SSC"). Affiliates of SSC provided administrative services to the Partnership during the period at commercial rates. SSC ceased its provision of administrative services to the Partnership with effect from 31st May 2013.

Each of H.C. Grant, G.P. Essex-Cater and S.J. Hopkins is a Director of Sanne Corporate Services Limited, a company which provides administration services to the Partnership at commercial rates with effect from 1st June 2013 to date.

S.J. Hopkins is also a Director of Sanne Secretaries Limited, a company which provides secretarial services to the Partnership at commercial rates with effect from 1st June 2013 to date.

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 and Sanne Corporate Services Limited during the year in respect of administration and management fees are disclosed on the face of the statement of comprehensive income. Fees owed at the year end are disclosed in Note 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 and Trusts 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 2013

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 and the proceeds from which have been used to acquire 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.

Determination of fair value

The fair values disclosed in these financial statements have been determined for the sole purpose of ensuring compliance with IFRS 13, which requires disclosure of such fair values in these financial statements.

Fair value is defined in accordance with IFRS 13 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants at the measurement date. The fair value of financial instruments may be determined on the basis of 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.

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. The Silent Contribution is neither quoted nor traded in an active market. Consequently, no quoted market price exists for the Silent Contribution. The terms of the Silent Contribution are identical in all material respects to those of the RESPARC Securities, except for the fact that the RESPARC Securities bear interest at a fixed rate of 7.50%, whilst the Silent Contribution bears interest at a fixed rate of 7.65%. Accordingly, in the General Partner's opinion, the fair value of the Silent Contribution is estimated to be approximately equal and opposite to the fair value of the RESPARC Securities at all times. Therefore the quoted market price of the RESPARC Securities represents the best available objective estimate of the fair value of the Silent Contribution.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2013

13. FINANCIAL INSTRUMENTS - (CONTINUED)

Determination of fair value - (continued)

The table below presents the carrying values and fair values of the Partnership's financial assets and liabilities.

	<u>2013</u>		<u>2012</u>	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Silent Contribution	€ 155,055,000	€ 155,055,000	€ 123,985,000	€ 123,985,000
Financial liabilities:				
RESPARC Securities	€ 392,185,721	€ 155,055,000	€ 364,823,927	€ 123,985,000

In the General Partner's opinion the carrying amounts of trade and other receivables, cash and cash equivalents and trade, loans payable and other payables are reasonable approximations of the fair value of such financial instruments. Consequently, in accordance with IFRS 7.29(a), no fair value disclosures are provided for such financial instruments.

The General Partner has reviewed the fair value of the RESPARC Securities as at 31st December 2013 and considers that the market price reflects current adverse conditions affecting the financial position of HSH Nordbank to which the holders of the RESPARC Securities are exposed, 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.

Fair value hierarchy

The following table analyses within the fair value hierarchy those of the Partnership's assets and liabilities (by class).

31st December 2013	Level 1	Level 2	Level 3	Total
Financial assets:				
Silent Contribution	€ -	€ 155,055,000	€ -	€ 155,055,000
Financial liabilities:				
RESPARC Securities	€ 155,055,000	€ -	€ -	€ 155,055,000

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2013

13. FINANCIAL INSTRUMENTS - (CONTINUED)

Fair value hierarchy - (continued)

31st December 2012	Level 1	Level 2	Level 3	Total
Financial assets:				
Silent Contribution	€ -	€ 123,985,000	€ -	€ 123,985,000
Financial liabilities:				
RESPARC Securities	€ 123,985,000	€ -	€ -	€ 123,985,000

There were no transfers between Levels during the year or in the prior year.

Market risk

Interest rate risk

Interest rate risk occurs when there is a mismatch between the interest rates of the Partnership's asset and

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 and/or to the holders of the RESPARC Securities as the interest rates are effectively fixed.

The contractual interest rate profile of the Partnership's financial assets and financial liabilities is as follows. The Profit Participation on the Silent Contribution and the interest on the RESPARC Securities have been suspended as explained in Notes 2 and 8.

			<u>2013</u>		<u>2012</u>
	Interest charging basis	Effective interest rate %	Amount	Effective interest rate %	Amount
Financial assets:					
Silent Contribution	Fixed	7.65%	155,055,000	7.65%	123,985,000
Cash and cash equivalents	Floating	nil	172,522	nil	1,269
			€ 155,227,522		€ 123,986,269
Financial liabilities:					
Loans payable	Floating	12M Euribor + 0.3%	815,555	12M Euribor + 0.3%	577,973
RESPARC Securities	Fixed	7.50%	392,185,721	7.50%	364,823,927
			€ 393,001,276		€ 365,401,900

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2013

13. FINANCIAL INSTRUMENTS - (CONTINUED)

Market risk - (continued)

Currency risk

Currency risk occurs when there is a mismatch between the currencies of the Partnership's assets and liabilities. 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 and/or to the holders of the RESPARC Securities.

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 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 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 Partnership, nor is there any significant net currency rate risk to the 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 Partnership are separately exposed to interest rate risk and market price risk, the Partnership itself is not exposed to market risk overall. Furthermore, the General Partner observes that the total comprehensive income or loss reported by the Partnership each year results primarily from the mismatch in accounting treatment between the Silent Contribution (at fair value) and the RESPARC Securities (at amortised cost) as described in note 1. Given that the terms and conditions of the RESPARC Securities are matched to those of the Silent Contribution, there is no economic exposure of the Partnership to the total comprehensive income or loss resulting from this accounting mismatch. Therefore, in the General Partner's opinion, no sensitivity analysis is required to be disclosed.

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, the Partnership has no material net credit risk and all credit risk is ultimately borne by the holders of the RESPARC Securities.

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, the Partnership was informed that HSH Nordbank would not be servicing its Profit Participation certificates until 2017. 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.

As at 31st December 2013 and up to the date of approval of these financial statements, the RESPARC Securities had a long term credit rating of Ca from Moody's (2012: Ca).

HSH Nordbank AG has a long term credit rating of Baa3 from Moody's (2012: Baa2).

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2013

13. FINANCIAL INSTRUMENTS - (CONTINUED)

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>2013</u>		<u>2012</u>	
	Financial Assets	Financial Liabilities	Financial Assets	Financial Liabilities
Less than one year	176,113	871,745	173,077	631,634
In more than five years	500,000,000	500,000,000	500,000,000	500,000,000
	<u>€ 500,176,113</u>	<u>€ 500,871,745</u>	<u>€ 500,173,077</u>	<u>€ 500,631,634</u>

In the opinion of the General Partner, given the above maturity profile and the limited recourse nature of the RESPARC Securities and the existence of the Support Undertaking and the liquidity facility, the Partnership is not exposed to significant net liquidity risk. Liquidity risk is ultimately borne by the holders of the RESPARC Securities.

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 on going operational expenses of the Partnership and any loan interest payable on the liquidity facility.

As further explained in Note 17, no profit participation income has been received since 2008 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 Partnership is not subject to externally imposed capital requirements.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2013

15. OPERATING SEGMENTS

Geographical information

All of the Partnership's revenues and expenses are generated from external sources. The Partnership generated revenue of €950 during the year (2012: €nil). The Partnership's expenses amounted to €232,301 (2012:

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 Partnership and are included in administration fees in the statement of comprehensive income.

17. CURRENT MARKET CONDITIONS

HSH Nordbank

As detailed in note 9 the Partnership benefits from a Support Undertaking from HSH Nordbank Luxembourg. The ability of HSH Nordbank Luxembourg to meet its obligations to the Partnership under the Support Undertaking are contingent upon the financial strength of HSH Nordbank Luxembourg, as well as the ability of the HSH Nordbank group to continue as a going concern.

On 2nd June 2009 the federal state of Schleswig-Holstein and the Free and Hanseatic City of Hamburg granted HSH Nordbank AG a guarantee facility in the amount of €10 billion via the HSH Finanzfonds AöR in order to secure the future of the HSH Nordbank AG Group. The agreement on the provision of the guarantee facility as well as a related recapitalisation of the HSH Nordbank AG Group are subject to approval by the European Commission in line with the law regarding state aid.

The EU Commission concluded these state aid proceedings at the end of September 2011 and entered into an agreement on conditions and commitments with all the parties involved. This means that the measures to support HSH Nordbank AG have been approved in a legally binding manner.

Thanks to the progress made in the winding-down of risk positions, HSH Nordbank was able to reduce the second loss guarantee issued by the federal states of Hamburg and Schleswig-Holstein. The guarantee amount was reduced from an initial €10 billion to €7 billion in September 2011 through a total of three partial reductions made during the course of the year 2011. With the reduction in the guarantee, the fee payable for the guarantee was also reduced.

The federal states of Hamburg and Schleswig-Holstein, the main shareholders of HSH Nordbank, re-increased the second loss guarantee for the Bank from €7 billion to the original facility of €10 billion at the end of June 2013.

RESPARCS FUNDING II LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2013

17. CURRENT MARKET CONDITIONS - (CONTINUED)

HSH Nordbank - (continued)

The guarantee increase was provisionally approved by the European Commission (EU Commission) in June 2013 after the consent of the parliaments of the federal states of Hamburg and Schleswig-Holstein had been given. At the same time the EU Commission initiated a formal investigation to determine whether the measure is in accordance with EU rules on state aid and within the framework of the measures already approved in 2011.

As of the date of approval of these financial statements, the investigation by the EU Commission has not been concluded. Consistent with the financial reports published by HSH Nordbank AG as of the date of approval of these financial statements, the ability of HSH Nordbank AG to continue as a going concern is based on the assumption that the European Union Commission grant final clearance to (i) the replenishment of the guarantee that provides capital relief and (ii) the amendment of the guarantee agreement following the preliminary approval given in June 2013. Such clearance will only be tied to conditions that can be implemented within a sustainable corporate plan. Acceptance by market participants and other relevant stakeholders is also required for the successful implementation of HSH Nordbank's business model to be preserved.

As at 31st December 2013, the HSH Nordbank AG Group had a stand-alone long-term rating of Baa3 (2012: Baa2), as issued by Moody's. The creditworthiness of the guarantor, HSH Nordbank AG, has been under close scrutiny during the year. On 11th July 2013, Moody's decided to downgrade HSH Nordbank AG from a credit rating of Baa2 to Baa3.

Whilst the Partnership is relying on HSH Nordbank Luxembourg to support its liabilities through the Support Undertaking, as at the statement of financial position date the Support Undertaking has not been called.

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 2013 or as at 31st December 2012. 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 2013 and 31st December 2012 has also been reduced to €nil.

18. EVENTS AFTER THE YEAR END

In the opinion of the General Partner, there are no significant events subsequent to the year end that are deemed necessary to be adjusted or disclosed in the financial statements.