

DIRECTORS' REPORT

For the year ended December 30, 2017

Corporate Governance

HSH N Funding II (the "Company"), was incorporated on May 26, 2005 as an exempted company with limited liability under the laws of the Cayman Islands. The Company is a wholly owned subsidiary of HSH Nordbank AG (the "Bank") which also provides one out of the three current directors to the Company. The financial results of the Company are consolidated within the Bank's financial statements. The Company does not have any employees. Its day-to-day administration is delegated to MaplesFS Limited, an independent service organization, which also provides two directors to the Company from its employees for a fixed annual fee.

The Directors of the Company who held office during the period are as follows:

Cleveland Stewart (independent) (appointed September 3, 2008)
Laura Chisholm (appointed January 29, 2013).

The Directors held no interests in the Company as at April 30, 2018.

Activities and Review of the Development of the Business

The business of the Company is principally limited to the issuance of two classes of preference shares and the investment of the proceeds thereof. The terms of the Company's asset classes are similar to the terms of the Class A Preference Shares and Class B Preference Shares issued and as a result, all cash flows received are passed through or attributed to the holders of those preference shares. The value of both classes of preference shares in issue as at December 30, 2017 amounted to US\$966,989,951 (December 2016 US\$1,040,799,194)

The principal risks the Company faces include (i) credit risk within the various asset classes, mainly the counterparty risk associated with the Bank, and (ii) liquidity risk because an illiquid secondary market could have an adverse effect on the value of the Company's assets and consequently the holders of preference shares. The direct exposure to market risk including changes in interest rates and foreign exchange rates is not significant.

The Company earned US\$36,276,800 (December 30, 2016: US\$36,276,800) as scheduled interest income from its asset classes during the period and paid dividends on the Class B Preference Shares of NIL (December 30, 2016: NIL).

It is not intended that the business of the Company will diversify. The Company does not engage in the field of research and development.

Impairment of financial assets

On February 6, 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 2017 to 2020 will then be used to write up hybrid instruments to par value. Therefore in the Company's opinion, no such loss events have occurred during the year ended December 31, 2014 or subsequently and the reductions in the nominal amount of the Silent contribution 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 Company's investment in the Silent contribution. On June 8, 2017, the Bank announced that the next coupon payment on Silent contributions will only take place in the year 2020 for the fiscal year 2019. However, on February 28, 2018, a share purchase agreement was signed whereby the shares of the Bank were sold to a consortium of private equity investors and the next coupon payment is now expected to take place in the year 2024 for the fiscal year 2023.

Going Concern

Due to the limited recourse nature of the Company's contractual arrangements, the Directors of the Company are of the opinion that the Company will be able to pay its debts as they fall due. Therefore, the financial statements have been prepared on a going concern basis, notwithstanding the current financial position of the Company and the carrying values of the Company's asset classes which were predominantly issued by the Bank. It is noted that if any conditions precedent to the proposed sale of the Bank are not met then the Bank will cease new business and manage its assets with the aim of winding down the business.

Results and Allocation

The Company reported a profit for the period of US\$73,555,322 (December 30, 2016: US\$31,707,786) and issued NIL Class A Preference Shares.

All potential profit or losses which may crystallize as a result of the Company holding or realizing its asset classes will be attributed to the holders of the preference shares and not to the Company itself.

Management's Statement of Responsibility for Financial Reporting

The financial statements of the Company have been prepared by management. Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies or making accounting estimates that are reasonable in the circumstances.

Statement on True and Fair View

The Directors of the Company state that, to the best of their knowledge:

- the unaudited financial statements dated as at April 30, 2018, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- this report gives a true and fair view of the state of affairs of the Company as at the balance sheet date and of the course of affairs during the financial period of the Company together with a description of the principal risks the Company faces.

For and on behalf of the Board of Directors of the Company on 30 April, 2018

A handwritten signature in blue ink, appearing to read 'Cleveland Stewart', is written over a faint horizontal line.

Cleveland Stewart, Director