

DIRECTORS' REPORT

For the year ended December 31, 2011

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 year are as follows:

David Lopez (resigned December 19, 2011)
Christoph Christensen (appointed December 19, 2011)
Cleveland Stewart (independent) (appointed September 3, 2008)
George Bashforth (independent) (appointed December 11, 2008)

The Directors held no interests in the Company as at December 31, 2011.

NB: Subsequent to year end George Bashforth resigned as a director on January 25, 2012 and Aileen Sargent was appointed.

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 Class A Preference Shareholders are also exposed to all risks the Company faces and the Class B Preference Shareholders transfer the risk to the holders of the Sphere Securities. The value of both classes of preference shares in issue as at December 31, 2011 amounted to US\$1,074,471,598 (2010: US\$1,073,818,534).

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 acquired a silent capital interest in the aggregate amount of US\$500,000,000 in the Bank. At December 31, 2011 the balance of the silent contribution was US\$563,085,354 comprising the initial silent contribution, the net adjustments due to IAS39.AG8 of US\$28,949,368 (2010 US\$32,246,727) and accrued profit participations of US\$92,034,722 (2010 US\$92,034,722).

As of December 31, 2011 the carrying amount of the Class B preference shares was US\$429,437,598 (2010 US\$428,784,534).

The Company earned US\$36,312,063 (2010: US\$36,318,362) as scheduled interest income from its asset classes during the year and also paid dividends on the Class B Preference Shares of NIL(2010: 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.

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.

Results and Allocation

The Company reported a profit for the year of US\$38,956,116 (2010: US\$33,482,256) and issued no (2010 US\$54,376,000) 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

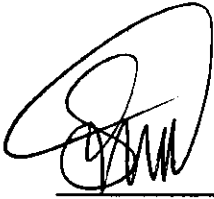
The financial statements of the Company have been prepared by management. Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining 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; and 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 financial statements dated as at December 31, 2011, 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 year 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, 2012

A handwritten signature in black ink, appearing to be 'C. Stewart', written over a horizontal line.

Cleveland Stewart, Director

Financial Statements of

HSH N FUNDING II

December 31, 2011 and 2010

HSH N FUNDING II

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Independent Auditors' Report to the Shareholders

We have audited the accompanying financial statements of HSH N Funding II (the "Company"), which comprise the statements of financial position as at December 31, 2011 and 2010, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines as necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of the Company as at December 31, 2011 and 2010, and of its financial performance, its changes in equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG

April 30, 2012

HSH N FUNDING II

Statements of Comprehensive Income

Years ended December 31, 2011 and 2010

(stated in United States dollars)

	Note	2011	2010
Income			
Net change in revised discounted cash flows (Silent Contribution)	2(c)(iii), 3	3,297,359	26,149,582
Interest income on loan	4,7	36,276,800	36,276,800
Other interest income	7	35,066	41,561
		39,609,225	62,467,943
Finance costs			
Net change in revised discounted cash flows (Class B preference shares)	2(c)(iii), 5	653,064	28,985,434
Net income before operating expenses		38,956,161	33,482,509
Other expenses		242	253
Net income for year, being comprehensive income for year	US\$	38,955,919	33,482,256

See accompanying notes to financial statements.

HSH N FUNDING II

Statements of Financial Position

December 31, 2011 and 2010
(stated in United States dollars)

	Note	2011	2010
Assets			
Silent Contribution	3,7	563,085,354	559,787,995
Loan receivable	4,7	553,000,000	553,000,000
Cash and cash equivalents	7	9,237,373	9,202,297
Total assets		US\$ 1,125,322,727	1,121,990,292
Liabilities and equity			
Liabilities			
Class B preference shares	5	429,437,598	428,784,534
Other liabilities		1,528	1,528
		429,439,126	428,786,062
Equity			
Share capital	6	10,000	10,000
Class A preference shares	6	645,034,000	645,034,000
Retained earnings		50,839,601	48,160,230
		695,883,601	693,204,230
Total liabilities and equity		US\$ 1,125,322,727	1,121,990,292

See accompanying notes to financial statements.

Approved on behalf of the Board of Directors on April 30, 2012

CLEVELAND STEWART Director

AILEEN SARGENT Director

HSN FUNDING II

Statements of Changes in Equity

Years ended December 31, 2011 and 2010

(stated in United States dollars)

	Note	Share Capital	Class A Preference Shares	Retained Earnings	Total
Balance at December 31, 2009		10,000	590,658,000	105,330,701	695,998,701
Comprehensive income for year		-	-	33,482,256	33,482,256
Class A dividends paid	6(i)	-	-	(36,276,727)	(36,276,727)
Issuance of additional Class A – Shares		-	54,376,000	(54,376,000)	-
Balance at December 31, 2010		10,000	645,034,000	48,160,230	693,204,230
Comprehensive income for year		-	-	38,955,919	38,955,919
Class A dividends paid	6(i)	-	-	(36,276,548)	(36,276,548)
Balance at December 31, 2011	US\$	10,000	645,034,000	50,839,601	695,883,601

See accompanying notes to financial statements.

HSH N FUNDING II

Statements of Cash Flows

Years ended December 31, 2011 and 2010
(stated in United States dollars)

	2011	2010
Cash provided by/(applied in):		
Operating activities		
Comprehensive income for year	38,955,919	33,482,256
Add/(deduct) net changes in non-cash operating balances:		
Net change in revised discounted cash flows (Class B preference shares)	653,064	28,985,434
Net change in revised discounted cash flows (Silent Contribution)	(3,297,359)	(26,149,582)
	36,311,624	36,318,108
Financing activities		
Class A dividends paid	(36,276,548)	(36,276,727)
	(36,276,548)	(36,276,727)
Increase in cash and cash equivalents during year	35,076	41,381
Cash and cash equivalents at beginning of year	9,202,297	9,160,916
Cash and cash equivalents at end of year	US\$ 9,237,373	9,202,297
Supplementary information on cash flows from operating activities:		
Interest received	36,311,866	36,318,362

Supplementary information on non-cash financing activities:

Not included in financing activities for the year ended December 31, 2010 are dividends issued in kind by issuance of shares to Class A Preference shareholders of US\$54,376,000, (Note 6 (i)).

See accompanying notes to financial statements.

HSH N FUNDING II

Notes to Financial Statements

December 31, 2011 and 2010
(stated in United States dollars)

1. Incorporation and background information

HSH N Funding II ("the Company") was incorporated on May 26, 2005 as an exempted company with limited liability under the laws of the Cayman Islands for the purpose of carrying on business as an investment company. The Company is a wholly owned subsidiary of HSH Nordbank AG (the "Bank"). The financial results of the Company are consolidated by the Bank.

The objectives for which the Company has been established are limited by the Memorandum of Association to entering into transaction documents and exercising its rights and performing its obligations in connection therewith. The Company issued 500,000 Class B preference shares in the aggregate nominal amount of US\$500,000,000 to Banque de Luxembourg, a société anonyme incorporated in Luxembourg (the "Fiduciary") and used the proceeds to acquire a silent capital interest in the commercial enterprise (*Handelsgewerbe*) (the "Participation") of the Bank in the form of a *Stille Gesellschaft* pursuant to an agreement providing for an asset contribution to the Bank in the amount of US\$500,000,000 (the "Silent Contribution") and dated June 17, 2005 (the "Participation Agreement").

The Fiduciary financed the purchase of Class B preference shares with proceeds from issuance of US\$500,000,000 HSH Nordbank Silent Participation Hybrid Equity Regulatory (SPHERE) Securities in the denomination of US\$1,000 (the "SPHERE Securities") on a fiduciary basis at 100% of the principal amounts. The Fiduciary acquired the Class B preference shares at the sole risk of the holders of the SPHERE Securities. The SPHERE Securities are listed on the Euronext Amsterdam Exchange. The Bank has entered into a support undertaking agreement with the Fiduciary that the Company will at all times be in a position to meet its dividend obligations under the Class B preference shares if and when due as contemplated in the Company's Memorandum and Articles of Association.

In addition, the Company issued 553,000 Class A preference shares to the Bank in the aggregate nominal amount of US\$553,000,000 and used the proceeds to extend a loan documented in the form of a German law governed *Schuldscheindarlehen* to the Bank. The purpose of the loan is to enable the Company to meet its obligations in relation to the Class B preference shares if and when they arise under the Class B preference shares terms.

The Company's registered office is located at Ugland House, George Town, Grand Cayman. The operations of the Company are conducted primarily in United States dollars. Consequently, the functional currency of the financial statements is United States dollars and not the local currency of the Cayman Islands.

Operating expenses of the Company are paid by the Bank, with no obligation for the Company to repay. Accordingly, the Company is economically dependent on the Bank.

The financial statements are presented in United States dollars.

Daily activities of the Company are administered by MaplesFS Limited ("MFL").

HSN FUNDING II

Notes to Financial Statements (continued)

December 31, 2011 and 2010
(stated in United States dollars)

2. Significant accounting policies

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). The accounting policies have been applied consistently by the Company. Significant accounting policies and their effect on the financial statements are as follows:

(a) Use of estimates

The preparation of financial statements in accordance with IFRSs requires management to make estimates and assumptions that affect the application of accounting policies and the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the year. Actual results could differ from those estimates. In this connection the disclosures in accordance with IAS 1.125 are made (additionally to the information provided in this note) in notes 3, 5, 8 and 9.

(b) Profit participation under the Participation Agreement, interest income, Class B dividends and Class A dividends

Profit participation under the Participation Agreement and interest income are recognised on an accruals basis. Class A and Class B dividends are recognised in accordance with the Article of Association.

(c) Financial instruments

(i) Classification

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset, or to exchange financial instruments with another enterprise under conditions that are potentially favorable or an equity instrument of another enterprise. Financial assets comprise cash and cash equivalents, Silent Contribution and loan receivables.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset or to exchange financial instruments with another enterprise under conditions that are potentially unfavorable. Financial liabilities comprise Class B preference shares and other liabilities.

Financial assets that are classified as loans and receivables include cash and cash equivalents, Silent Contribution and loan receivables. All financial liabilities are classified as financial liabilities measured at amortized cost.

The Company classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

HSN FUNDING II

Notes to Financial Statements (continued)

December 31, 2011 and 2010
(stated in United States dollars)

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(ii) Recognition

The Company recognizes financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

(iii) Measurement

Financial instruments are measured initially at cost which is the fair value of the consideration given or received.

Subsequent to initial recognition all financial assets are measured at their amortized cost using the effective interest rate method, less impairment losses, if any.

All financial liabilities are subsequently measured at amortized cost, being the amount at which the liability was initially recognized less any principal repayments plus any amortization (accrued interest) of the difference between that initial amount and the maturity amount.

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. As of December 31, 2009 IAS 39.AG8 was applicable for the first time for the Silent Contribution and the Class B preference shares and affected the carrying value of these financial instruments as at that date.

The recalculated carrying amounts as at December 31, 2009 resulted initially from computing the present value of estimated future interest and redemption cash flows at the financial instruments' original effective interest rate. In subsequent periods, estimates are revised leading to a write-up or write-down of the financial instruments. The related net income or expense is recognized in the statements of comprehensive income (see notes 3 and 5).

Applying IAS 39.AG8 involves substantial assumptions, which are accompanied by uncertainties. These uncertainties are described in paragraph (iv) of this note.

(iv) Determination of Fair Values

The determination of fair values has the sole purpose to present the respective information in note 8 of 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 is determined on the basis of the listed prices on an active market (mark-to-market), or if this is not possible on the basis of recognized valuation techniques and models (mark-to-matrix or mark-to-model).

HSH N FUNDING II

Notes to Financial Statements (continued)

December 31, 2011 and 2010
(stated in United States dollars)

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(iv) Determination of Fair Values (continued)

The mark to market method is used if a market price is available at which a transaction could be performed or has been performed. This is generally the case for securities traded on liquid markets. The mark-to-matrix method is used to determine fair value where no market price is available under the mark-to-market method. If a fair value cannot be determined from the market or transaction prices of a financial instrument, either it is derived from the prices of comparable financial instruments or a model valuation is conducted with parameters that are almost completely observable in the market. This method has been applied to measure the fair value of the Class B Shares. These shares are linked to the listed SPHERE securities, which are listed on the Stock Exchange in Amsterdam.

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

The fair value of the Loan Receivable is determined by discounting contractual cash flows taking into account rating-related spreads. The fair value of the Silent Contribution is determined by discounting future cash flows taking into account credit spreads for subordinated capital. The future cash flows whose amount and payment dates have to be estimated are payments of interest and principal which take into account

- participation in loss by investors of HSH Nordbank Group, where these will probably not be made up by the expected redemption date of an instrument,
- any contractually agreed retrospective coupon payments.

The estimation of future cash flows from hybrid financial instruments requires material assumptions which are associated with uncertainties. Among the key sources of uncertainty in estimation is the future profitability of HSH Nordbank Group, which depends specifically on the development of the economy and the requirements imposed by the European Union in connection with approval of restructuring subsidies. Assumptions are also required about the exercise of termination or extension options associated with the individual transactions.

(v) Derecognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition in accordance with IAS 39. A financial liability is

HSH N FUNDING II

Notes to Financial Statements (continued)

December 31, 2011 and 2010
(stated in United States dollars)

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(v) Derecognition (continued)

derecognised when the obligation specified in the contract is discharged, cancelled or expired.

The Company uses the specific identification method to determine gains or losses on derecognition for financial assets that are sold.

(vi) Impairment of financial assets

Financial assets are reviewed at each statements of financial position date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated based on the present value of discounted cash flows if market prices are not available.

If in a subsequent period the amount of an impairment loss decreased and the decrease can be objectively related to an event occurring, after the write-down, the write-down is reversed through the statements of comprehensive income.

(vii) Specific instruments

Cash and cash equivalents

For the purposes of the statements of cash flows, cash and cash equivalents includes current accounts with original maturities of three months or less.

Silent Contribution

IAS 39.9 defines a loan and receivable as a non-derivative financial asset with fixed or determinable payments that are not quoted in an active market and for which the holder may not recover substantially all its initial investment because of credit deterioration. The Silent Contribution was categorized as loans and receivables. It is measured initially at cost and subsequently measured at amortised cost, being the amount at which the Silent Contribution is measured at initial recognition plus accrued profit participations plus or less adjustments required to comply with the requirements of IAS 39. AG8 (note 2(c)(iii)). Accrued profit participations and the net result from the application of IAS 39.AG8 are recognized in the statements of comprehensive income in the same period as the respective profit period. The accrual is recognized as an increase in the book value of the Silent Contribution in equal installments starting from September 30 in the year that follows the relevant fiscal year of the Bank/respective profit period. In case the profit participation is excluded in accordance with the terms of the Participation Agreement, the profit participation accrual is cancelled. Both the book value and the accrual are shown as Silent Contribution on the statements of financial position.

HSH N FUNDING II

Notes to Financial Statements (continued)

December 31, 2011 and 2010
(stated in United States dollars)

2. Significant accounting policies (continued)

(d) Financial instruments (continued)

(vii) Specific instruments (continued)

Loan receivable

Loan receivable is subsequently measured at amortized cost, being the amount at which the loan receivable is measured at initial recognition minus principal repayments, and minus any write down for impairment or uncollectibility. The loan receivable is interest bearing with interest income being recognized in the statements of comprehensive income.

Class B preference shares

Class B preference shares are classified as a financial liability according to IAS 32.11 (a) and measured at amortised cost plus adjustments required to comply, if any with the requirements of IAS 39.AG8 (note 2(c)(iii)). Dividends on Class B preference shares and the net result from the application of IAS 39.AG8 are recognised as interest expense in the statements of comprehensive income as accrued.

According to IAS 39.10 embedded derivatives shall not be separated from the host contract and accounted for as a derivative if the value of the derivative would change in response to a non-financial variable that is specific to a party. The value of the Class B preference shares vary in response to a non-financial variable linked to the performance of HSH Nordbank.

(d) Offsetting

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

3. Silent Contribution

The Company acquired a silent capital interest in the aggregate amount of US\$500,000,000 (2010: US\$500,000,000) in the commercial enterprise of the Bank in the form of the Participation pursuant to the Participation Agreement dated June 17, 2005 providing for an asset contribution to the Bank in the amount of US\$500,000,000 (2010: US\$500,000,000).

HSN FUNDING II

Notes to Financial Statements (continued)

December 31, 2011 and 2010
(stated in United States dollars)

3. Silent Contribution (continued)

The Participation Agreement has no fixed redemption date and may only be redeemed when terminated by the Bank. The Bank may, if tax or regulatory changes occur, terminate the Participation Agreement only after providing two years notice thereof and approval therefore has been given by the German Banking Supervisory Authority. The Company shall be entitled to Profit Participations on the nominal contribution amount at a fixed rate of 7.25% p.a.

Pursuant to terms of the Participation Agreement profit participations will accrue on the principal amount for each fiscal year of the Bank or part thereof. No profit participations accrue to the extent payment thereof would lead to or increase an annual balance sheet loss, if there has occurred a reduction which has not yet been fully restored, in the case of regulatory interventions or if the termination date falls within such period.

The Company may share in the losses of the Bank after allocation to/from its reserves and retained earnings up to the principal amount of the Silent Contribution. Any such losses will reduce the principal amount of the Silent Contribution. If at any time, the principal amount of the Silent Contribution is reduced on account of a loss, the principal amount of the Silent Contribution will be re-credited in the years subsequent in which profits are recorded, provided that at no time shall the principal amount of the Silent Contribution be more than the principal amount of the Silent Contribution on the date of the Participation Agreement. Independently from these contractual regulations, which legally apply, IAS39.AG8 is applicable for purposes of accounting to reflect share in losses (note 2(c) (iii)).

At December 31, 2011 the balance on the Silent Contribution was US\$563,085,354 (2010: US\$559,787,995) comprising the initial Silent Contribution of US\$500,000,000 (2010: US\$500,000,000) the net adjustments due to IAS39.AG8 of US\$(28,949,368) (2010: US\$(32,246,727)) and accrued profit participations of US\$92,034,722 (2010: US\$92,034,722).

HSH N FUNDING II

Notes to Financial Statements (continued)

December 31, 2011 and 2010
(stated in United States dollars)

3. Silent Contribution (continued)

	Silent contribution USD	Accrued profit participation USD	Net results from revised discounted cash flows USD	Total USD
Balance at December 31, 2009	500,000,000	92,034,722	(58,396,309)	533,638,413
Profit Participation for year	-	-	-	-
Result of revised discounted cash flows for the year	-	-	26,149,582	26,149,582
Balance at December 31, 2010	500,000,000	92,034,722	(32,246,727)	559,787,995
Profit Participation for year	-	-	-	-
Result of revised discounted cash flows for the year	-	-	3,297,359	3,297,359
Balance at December 31, 2011	500,000,000	92,034,722	(28,949,368)	563,085,354

4. Loan receivable

On June 17, 2005 the Company entered into a term loan agreement, (the "Loan Agreement") with the Bank under which the Company has made a US\$553,000,000 term loan facility in the form of a German law governed *Schuldscheindarlehen* available to the Bank.

Interest is charged on the loan at a rate of 6.56% p.a. and the loan will mature on June 30, 2036.

5. Class B preference shares

The Company issued 500,000 Class B preference shares to the Fiduciary. The purchase was funded from the issuance of US\$500,000,000 SPHERE Securities.

At December 31, 2011 the balance of the Class B preference shares was US\$429,437,598 (2010: US\$428,784,534) comprising the initially issued amount of US\$500,000,000 (2010: US\$500,000,000) and the net adjustments due to IAS 39.AG8 of US\$(70,562,402) (2010: US\$(71,215,466)).

HSH N FUNDING II

Notes to Financial Statements (continued)

December 31, 2011 and 2010
(stated in United States dollars)

5. Class B preference shares (continued)

The net result derived by the Silent Contribution comprises as follows:

	Class B preference shares USD	Net results from revised discounted cash flows USD	Total USD
Balance at December 31, 2009	500,000,000	(100,200,900)	399,799,100
Result of revised discounted cash flows for the year	-	28,985,434	28,985,434
Balance at December 31, 2010	500,000,000	(71,215,466)	428,784,534
Result of revised discounted cash flows for the year	-	653,064	653,064
Balance at December 31, 2011	500,000,000	(70,562,402)	429,437,598

HSN FUNDING II

Notes to Financial Statements (continued)

December 31, 2011 and 2010
(stated in United States dollars)

5. Class B preference shares (continued)

Rights attaching to Class B preference shares:

- i. Each Class B preference shareholder has a right to receive an annual dividend on each Class B preference share held, calculated, declared and paid based on the specification in the Articles of Association. Dividends are paid in cash.
 - ii. On winding-up of the Company or other return of capital (other than purchase or redemption of Class B preference shares), the Class B preference shareholders will be entitled to share in the Company's rights to interest accrued under the Loan Agreement, repayment amount under the Participation Agreement, interest on the repayment amount and the Company's rights to funding of the Luxembourg gross-up amount (the "Class B Ring-Fenced Assets"). No other holders of shares in the Company will be entitled to the Class B Ring-Fenced Assets. If the value of claims of the Company's creditors exceed the Company's assets (minus the Class A Ring-Fenced Assets and the Class B Ring-Fenced Assets), the rights of the Class B preference shareholders in the assets of the Company will rank junior to the rights of Class A preference shareholders up to an amount equal to the sum of the loan repayment amount under the Loan Agreement (plus amounts which have actually been received thereunder and minus amounts which have been received and passed on to Class A preference shareholders), but senior to the holders of other shares in the Company up to an amount equal to the Class B Ring-Fenced Assets (plus amounts which have actually been received thereunder and minus amounts which have been received and passed on to Class B preference shareholders).
 - iii. The Class B preference shareholders shall be entitled to receive notice of general meetings of the Company but shall not be entitled to attend and vote thereat.
 - iv. The Company will, forthwith upon becoming aware that the Class B preference shares will be redeemed, notify the Class B preference shareholders of (A) the date on which they will be redeemed, and (B) the amount of payment in cash.
 - v. The Company shall make all payments to the Class B preference shareholders pursuant to terms of the Articles of Association without any tax deduction, unless a tax deduction is required by law.
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HSH N FUNDING II

Notes to Financial Statements (continued)

December 31, 2011 and 2010
(stated in United States dollars)

6. Share capital

	2011	2010
Authorised:		
10 Ordinary Shares of US\$1,000 each	10,000	10,000
1,050,000 Class A preference shares of US\$1,000 each	1,050,000,000	1,050,000,000
	US\$ 1,050,010,000	1,050,010,000
Issued and fully paid:		
10 Ordinary Shares of US\$1,000 each	US\$ 10,000	10,000

During the period ended December 31, 2011 and 2010, there were no changes to issued and fully paid Ordinary Shares.

Issued and fully paid Class A preference shares:

	2011 Number of shares	2011 US\$	2010 Number of shares	2010 US\$
Balance at beginning of period	645,034	645,034,000	590,658	590,658,000
Issued during the year	-	-	54,376	54,376,000
Balance at end of year	645,034	645,034,000	645,034	US\$ 645,034,000

HSN FUNDING II

Notes to Financial Statements (continued)

December 31, 2011 and 2010
(stated in United States dollars)

6. Share capital (continued)

(a) Rights attaching to Class A preference shares:

- i. Each Class A preference shareholder has a right to receive annual interim and final dividends on each Class A preference share held calculated based on the Articles of Association. Interim dividends are not paid by cash but by issue of such number of Class A preference shares, the aggregate par value of which equals the amount of such declared interim dividend. Final dividends are paid in cash.
 - ii. On winding-up of the Company or other return of capital (other than purchase or redemption of Class A preference shares), the Class A preference shareholders will be entitled to share in the Company's rights to the loan repayment amount under the Loan Agreement (the "Class A Ring-Fenced Assets"). No other holders of shares in the Company will be entitled to the Class A Ring-Fenced Assets. If the value of claims of the Company's creditors exceed the Company's assets (minus the Class A Ring-Fenced Assets and the Class B Ring-Fenced Assets), the rights of the Class A preference shareholders in the assets of the Company will rank senior to the rights of holders of other shares in the Company, up to an amount equal to the Class A Ring-Fenced Assets (plus amounts which have actually been received there under and minus amounts which have been received and passed on to Class A preference shareholders).
 - iii. The Class A preference shareholders shall be entitled to receive notice of general meetings of the Company and shall be entitled to vote thereat.
 - iv. Class A preference shares may only be redeemed contemporaneously with redemption of the Class B preference shares or after the Class B preference shares have been redeemed. Class A preference shares may be redeemed at the option of the Class A preference shareholder or the Company by notice to the other. The Class A preference shares will be redeemed in an amount equal to the loan repayment amount under the Loan Agreement and aggregate profit participations under the Participation Agreement. The Company may set off its obligation to pay cash dividends in accordance with the terms of the Articles of Association against obligations owing to the Company by the Class A preference shareholder in respect of interest accrued and due but unpaid under the Loan Agreement.
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HSH N FUNDING II

Notes to Financial Statements (continued)

December 31, 2011 and 2010
(stated in United States dollars)

7. Related party balances and transactions

The Company is controlled by the Bank, which is considered as related party.

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

	Note	2011	2010
Statements of Financial Position:			
Silent Contribution	3	563,085,354	559,787,995
Loan receivable	4	553,000,000	553,000,000
Cash and cash equivalents		9,237,373	9,202,297
Statements of Comprehensive Income:			
Interest income on loan	4	36,276,800	36,276,800
Other interest income		35,066	41,561

Included in the cash balance is an amount of US\$9,069,200 (2010: US\$9,069,200) attributable to the Class A-preference shareholder in the form of a cash dividend to be declared in 2012.

HSH Nordbank AG's audited financial statements for the year ended December 31, 2010 contained an emphasis of matter paragraph in the audit opinion that the Bank's ability to continue as a going concern was dependent on whether the European Commission approved the stabilization measures implemented by the Free and Hanseatic City of Hamburg and the State of Schleswig-Holstein in the foreseeable future on a permanent basis. In addition it was claimed to be necessary that the EU approval should only be tied to requirements which:

- can be implemented within the framework of reasonable business planning,
- in particular, will not conflict the effect of stabilization measures that relieve the regulatory capital.

For the year ended December 31, 2011 the audited financial statements of HSH Nordbank AG did not include an emphasis of matter paragraph in the audit opinion.

HSN FUNDING II

Notes to Financial Statements (continued)

December 31, 2011 and 2010
(stated in United States dollars)

8. Disclosure of Fair Values in Accordance with IFRS 7

For each financial asset and liability, the fair values are disclosed and compared with the respective carrying amount (IFRS 7.25):

December 31, 2011	Note	Carrying Amount	Fair Value	Difference
Silent Contribution	3	563,085,354	246,072,869	(317,012,485)
Loan Receivable	4	553,000,000	765,755,051	212,755,051
Cash and cash equivalent		9,237,373	9,237,373	0
Class B preference shares	5	429,437,598	98,890,000	(330,547,598)
Other Liabilities		1,528	1,528	0

December 31, 2010	Note	Carrying Amount	Fair Value	Difference
Silent Contribution	3	559,787,995	336,762,842	(223,025,153)
Loan Receivable	4	553,000,000	664,483,332	111,483,332
Cash and cash equivalent		9,202,297	9,202,297	0
Class B preference shares	5	428,784,534	168,890,000	(259,894,534)
Other Liabilities		1,528	1,528	0

9. Credit, liquidity and market risk

The Company's investment activities expose it to various types of risk that are associated with the financial instruments and markets in which they invest. The most significant type of financial risk to which the Company is exposed is credit risk.

The nature and extent of the financial instruments outstanding at the date of the statements of financial position and the risk management policies employed by the Company are discussed below:

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. Credit risk is generally higher when a non-exchange traded financial instrument is involved because the counterparty for non-exchange traded financial instruments is not backed by an exchange clearing house.

The Company is potentially exposed to credit risk on the Silent Contribution, loan receivables and from its exposure on its cash and cash equivalents. The counterparty of these items is solely

HSH N FUNDING II

Notes to Financial Statements (continued)

December 31, 2011 and 2010
(stated in United States dollars)

9. Credit, liquidity and market risk (continued)

Credit risk (continued)

HSH Nordbank AG. The carrying amounts of financial assets best represent the maximum credit risk exposure at the statements of financial position date.

As at December 31, 2011 and 2010 the Company's financial assets exposed to credit risk amounted to the following:

	Note	2011	2010
Silent Contribution	3	563,085,354	559,787,995
Loan receivable	4	553,000,000	553,000,000
Cash and cash equivalents		9,237,373	9,202,297
	US\$	1,125,322,727	1,121,990,292

The Class B preference shareholders bear the risk of the Silent Contribution and the Class A preference shareholders bear the credit risk of the loan and its interest receivable. The balance of the Silent Contribution comprises adjustments due to IAS 39.AG8 of US\$28,949,368 (2010: US\$32,246,727).

Liquidity risk and refinancing risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations associated with financial liabilities. The timing and terms of cash inflows from Silent Contribution and loan receivable are similar to cash outflows on accounts of Class A preference shares and Class B preference shares. As such, the Company is deemed to have insignificant exposures to liquidity risk and refinancing risk.

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments in the market.

Market risk represents the potential loss that can arise as a result of adverse changes on market positions. Relevant for the company are interest rates and credit spreads (interest rate risk). The Company is not exposed to foreign exchange risks, stock prices, indices and fund prices or commodity prices.

As explained in Note 1 the limited purpose of the company as an investment company is to provide funding to the Bank.

HSH N FUNDING II

Notes to Financial Statements (continued)

December 31, 2011 and 2010
(stated in United States dollars)

9. Credit, liquidity and market risk (continued)

Market risk (continued)

The terms of the Loan Agreement and Participation Agreement are similar to terms of Class A preference shares and Class B preference shares. All proceeds received from the Bank under the Loan receivable and the Silent Contribution are distributed to Class A and Class B Shareholders. Hence, the entire market risk of loan receivable and Silent Contribution are passed onto Class A preference shares and Class B preference shares. As such, the Company is deemed to have insignificant exposures to interest rate or credit spread risk. Changes in interest rates or credit spread risk do not have any significant impact on profit or loss and equity of the company.

10. Taxation

There are no taxes on income or gains in the Cayman Islands and the Company has received an undertaking from the Governor in Cabinet of the Cayman Islands exempting it from all local income, profits and capital taxes until 2025 should such taxes be enacted. Accordingly, no provision for income taxes is included in these financial statements.

11. New pronouncements

Relevant standards and amendments issued prior to December 31, 2011 but not effective until future periods:

IFRS 9 – *Financial Instruments* (effective from January 1, 2013) is expected to impact the Company as the Company does fall within the scope of this new standard.

IFRS 13 – Fair value measurements (effective from January 1, 2013)

IFRS 7 – Disclosure: transfer of financial assets (effective from annual periods beginning on or after July 1, 2011)

IAS 1 – Presentation of items of other comprehensive income (effective from July 1, 2012)

At this time, the Company is in the process of reviewing the impact, if any, of the above amendments on the Company's financial statements. None of these are expected to have a significant effect on the measurement of the amount recognized in the financial statements.

12. Subsequent events

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

The financial statements were approved and authorised for issue by Directors on April 30, 2012.
