# Eurohypo Capital Funding Trust II

Annual Financial Report

as of December 31, 2011

**Management Report**
**as of December 31, 2011**

Eurohypo Capital Funding Trust II (the "Trust") exists for the sole purposes of issuing the Trust Preferred Securities, investing the gross proceeds thereof in the Company Class B Preferred Securities issued by Eurohypo Capital Funding LLC II (the "Company") and engaging in activities necessary or incidental thereto. In addition to the Company Class B Preferred Securities, the Company has also issued one voting common security (the "Company Common Security") and one non-cumulative Class A preferred security (the "Company Class A Preferred Security" and, together with the Company Common Security and the Company Class B Preferred Securities, the "Company Securities"). The Company Securities will represent all of the ownership interests in the Company. The Company Common Security and the Company Class A Preferred Security are owned by Eurohypo AG (the "Bank").

The Company has used the proceeds from the issuance of the Company Class B Preferred Securities, together with the proceeds from the issuance of the Company Class A Preferred Security and the Company Common Security, to acquire € 300,003,000 subordinated notes due March 8, 2045 (the "Initial Debt Securities") of the Bank. The income to be received by the Company from the Initial Debt Securities and any Substitute Debt Securities (the Substitute Debt Securities together with the Initial Debt Securities, the "Debt Securities"), will be available for distribution, as appropriate, to the holders of the Company Class B Preferred Securities, the Company Class A Preferred Security and the Company Common Security.

The Trust will pass through Capital Payments and redemption proceeds on the Company Class B Preferred Securities as Capital Payments and redemptions, respectively, on the Trust Preferred Securities. Capital Payments on the Company Class B Preferred Securities were payable (i) since and including March 8, 2005 (the "Issue Date") to but excluding March 8, 2007 ("Reset Date"), on a non-cumulative basis, annually in arrears on March 8 of each year, commencing March 8, 2006 at a fixed rate of 6.75 % per annum and (ii), after the Reset Date, annually in arrears on March 8 of each year, commencing March 8, 2008 at the Floating Rate – meaning the Reference Rate for the accrual of Capital Payments (or, in case of the Initial Debt Securities, Interest Payments) plus 0.1% per annum, provided that no Capital Payment for any capital payment period (or, in case of the Initial Debt Securities, Interest Payments) commencing on or after the Reset Date shall accrue at a rate of more than 8.00 % per annum, calculated on the basis of the actual number of days elapsed in a year of 365 or 366 days, as the case may be.

Capital Payments on the Company Class B Preferred Securities are subject to certain conditions and are authorized to be declared and paid on any Class B Payment Date to the extent that (i) the Company has an amount of Operating Profits for the Class B Payment Period ending on the day immediately preceding such Class B Payment Date at least equal to the amount of such Capital Payments, and (ii) the Bank has an amount of Bank Distributable Profits for the most recent preceding fiscal year of the Bank for which audited financial statements are available at least equal to the aggregate amount of (x) such Capital Payments, (y) previous Capital Payments already paid on the basis of Bank Distributable Profits for such most recent fiscal year and (z) capital payments, dividends or other distributions on Parity Securities, if any, pro rata, on the basis of Bank Distributable Profits for such most recent fiscal year.

Despite sufficient Operating Profits of the Company and sufficient Bank Distributable Profits of the Bank, the Company will not be permitted to make Class B Capital Payments on any Class B Payment Date (or a date set for redemption or liquidation) if on such date there is in effect an order of the German Federal Financial Supervisory Authority ("BaFin") or other relevant regulatory authority pursuant to the German Banking Act (KWG) or any other applicable regulatory provision prohibiting the Bank from making any distribution of its profits (including to the holders of the Parity Securities). The Company will have no obligation to make up, at any time, any Class B Capital Payments not paid in full by the Company as a result of insufficient Operating Profits of the Company, insufficient Bank Distributable Profits or an order of the BaFin.

To the extent the board of directors of the Company does not declare Capital Payments at the stated rate in full on any Class B Payment Date, the Bank - as the owner of the Class A Preferred Security of the Company - shall be entitled to receive when, as and if declared by the board of directors of the Company out of assets of the Company legally available therefore, capital payments in cash or in assets of the Company on a noncumulative basis.

The Trust Preferred Securities will not have any scheduled maturity date and will not be redeemable at any time at the option of the holders thereof. The Trust and the Company did not redeem the Trust Preferred Securities on the Initial Redemption Date on March 8, 2011, but the Trust and the Company may do so on any Capital Payment Date falling after the Initial Redemption Date, except upon the occurrence of certain disqualification events arising from tax, U.S. Investment Company Act of 1940, as amended and regulatory capital matters.

*Capitalized terms used therein and not otherwise defined herein shall have the same meanings as defined in the Information Memorandum which is available on the Eurohypo website at the following URL:*
http://www.eurohypo.com/de/main_navigation/investor_relations/emissionen_und_anleihen_/hybrides_kernkapital/hybrides_kernkapital.php

The Trust, the Bank and the Company have entered into a services agreement with Eurohypo Aktiengesellschaft, New York Branch ("Services Agreement"). Under this Services Agreement, Eurohypo Aktiengesellschaft, New York Branch as the servicer (the "Servicer") will be obligated, among other things, to provide legal, accounting, tax and other general support services to the Trust and the Company, to maintain compliance with all applicable U.S. and German local, state and federal laws, and to provide administrative, record-keeping and secretarial services for the Company and the Trust. The fees and expenses of the Company and the Trust, including any taxes, duties, assessments or governmental charges of whatsoever nature (other than Withholding Taxes) imposed by any taxing authority upon the Company or the Trust, and all other obligations of the Company and the Trust (other than with respect to the Trust Preferred Securities or the Company Securities) will be paid by the Bank.

On March 3, 2011, the Bank's audited unconsolidated financial statements included in its annual report for the year 2010 did not indicate a balance sheet profit. Due to the lack of Bank Distributable Profits and lack of capital payments, dividends or other distributions on Parity Securities, no Class B Capital Payment was declared by the Company with respect to the payment date of March 8, 2011. As a consequence, the Trust did not make Capital Payments on the Trust Preferred Securities on March 8, 2011.

In addition, no Capital Payment were made with respect to the payment date of March 8, 2012 since the then most recent audited unconsolidated financial statements of the Bank for the year ended December 31, 2011 showed no Bank Distributable Profit.

On October 7, 2010, a complaint was filed in the Court of Chancery of the State of Delaware against Eurohypo AG, Eurohypo Capital Funding LLC I and Eurohypo Capital Funding LLC II. The complaint was amended on January 3, 2011 seeking (i) declaratory relief as to future payments under trust preferred securities issued by Eurohypo Capital Funding Trust I and Eurohypo Capital Funding Trust II and (ii) damages for breach of contract, breach of implied covenant of good faith and fair dealing and breach of fiduciary duty in connection with the non-payment of interest on the trust preferred securities in 2010. Plaintiffs request, inter alia, the court to award Eurohypo Capital Funding Trust II damages in an amount of unpaid Capital Payments on March 8, 2010 of EUR 10,236,000 and on March 8, 2011 of EUR 10,458,000, plus interest, legal fees and costs. At this stage the Trust cannot predict how this litigation will be resolved.

On January 21, 2011, the Bank's sole shareholder – Commerzbank AG ("Commerzbank") – completed a capital measure to optimize its capital structure pursuant to which Commerzbank issued approximately 118 million shares. The new shares were fully underwritten by Credit Suisse Securities (Europe) Limited against the contribution of hybrid equity instruments issued by companies in the Commerzbank Group, including the Trust. Pursuant to this transaction, Trust Preferred Securities issued by the Trust in an aggregate nominal value of EUR 79,904,000 were transferred to Commerzbank AG. As contemplated in the Amended and Restated Trust Agreement, Trust Preferred Securities beneficially owned by the Bank or an Affiliate will not be entitled to vote or consent and will, for purposes of such vote or consent, be treated as if such Trust Preferred Securities were not outstanding. Thus, such transfer of Trust Preferred Securities may result in an exclusion of those Trust Preferred Securities in a vote or consent.

On December 14, 2011, Commerzbank completed an additional measure to further strengthen its capital structure. Overall, investors in selected hybrid equity instruments (Trust Preferred Securities) issued by companies of the Commerzbank Group have offered to sell EUR 1.27 billion equivalent in aggregate principal amount of these instruments to Commerzbank, against cash consideration. Pursuant to this transaction, Trust Preferred Securities issued by the Trust in an aggregate nominal value of EUR 67,950,000 were transferred to Commerzbank. As contemplated in the Amended and Restated Trust Agreement, Trust Preferred Securities beneficially owned by the Bank or its Affiliates will not be entitled to vote or consent and will, for purposes of such vote or consent, be treated as if such Trust Preferred Securities were not outstanding. Thus, such transfers of Trust Preferred Securities may result in an exclusion of those Trust Preferred Securities in a vote or consent.

On October 21, 2011, Daniel Vinson resigned as Regular Trustee of the Trust and was replaced by Stephen Cox.

**Outlook**

As stated in the Eurohypo Capital Funding Trust II offering documents, any future capital payments are dependent on Bank Distributable Profits or capital payments, dividends or other distributions on Parity Securities.

**Actions by Rating Agencies after December 31, 2010**

The Trust Preferred Securities are rated by the rating agencies Standard & Poors Rating Services ("S&P"), Fitch Ratings Ltd. ("Fitch") and Moody's Investor Service, Inc. ("Moody's"). After year-end 2009, the following ratings actions took place:

- On March 10, 2011 Fitch Ratings has affirmed the "CCC" rating of the Trust Preferred Securities removed them from "Rating Watch Negative".
- On November 7, 2011, Moody's placed the "Caa1" rating of the Trust Preferred Securities "on Review for Downgrade".
- On February 28, 2012, Fitch Ratings downgraded the Trust Preferred Securities from "CCC" to "CC".
- Since March 8, 2010 the "C" rating provided by S&P for the Trust Preferred Securities remains unchanged.

## Statement by reporting entity

The accompanying Balance Sheet as well as the Income, Change in Cash Flows and Change of Equity statements have been prepared in accordance with US GAAP accounting standards.

# Eurohypo Capital Funding Trust II

(A Delaware Trust)

## Consolidated Financial Statements
## December 31, 2011

# Eurohypo Capital Funding Trust II
**(A Delaware Trust)**
## Index
## December 31, 2011

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## Report of Independent Auditors

To the Trustees of Eurohypo
Capital Funding Trust II

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, changes in equity and cash flows present fairly, in all material respects, the financial position of Eurohypo Capital Funding Trust II (the "Trust") at December 31, 2011, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As described in Note 8, the Trust has extensive related party transactions with its parent, Eurohypo AG, including reimbursement for all expenses incurred in connection with carrying out its duties and functions. Also as described in Note 3, no class B Preferred Securities Capital Payment was declared with respect to the payment on March 8, 2011 and, as described in Note 10, subsequent to the balance sheet date no payments are expected to be made on the Class B Preferred Securities with respect to payment date of March 8, 2012 due to the lack of distributable profits of Eurohypo AG or other distributions on Parity Securities.

PricewaterhouseCoopers LLP

April 27, 2012

# Eurohypo Capital Funding Trust II
**(A Delaware Trust)**
## Consolidated Balance Sheet
## December 31, 2011

*(in euros)*

| | |
|---|---|
| **Assets** | |
| Cash and cash equivalents | € 2,224 |
| Accrued interest receivable | 8,977,462 |
| Investment in affiliated subordinated debt securities | 300,003,000 |
| Total assets | € 308,982,686 |
| **Equity** | |
| Noncontrolling interest in subsidiaries | |
| Common equity security issued by Eurohypo Capital Funding LLC II (par value €1,000; 1 share authorized, issued and outstanding) | € 1,000 |
| Class A preferred security issued by Eurohypo Capital Funding LLC II (liquidation preference €1,000; 1 share authorized, issued and outstanding) | 1,000 |
| | € 2,000 |
| Common equity security (par value €1,000; 1 share authorized, issued and outstanding) | 1,000 |
| Perpetual trust preferred securities (liquidation preference €1,000; 300,000 shares authorized, issued and outstanding) | 300,000,000 |
| Retained earnings | 8,979,686 |
| Total equity | € 308,982,686 |

The accompanying notes are an integral part of the consolidated financial statements.

**Eurohypo Capital Funding Trust II**
**(A Delaware Trust)**
**Consolidated Statement of Income**
**Year Ended December 31, 2011**

*(in euros)*

| | |
|---|---|
| **Revenues** | |
| Interest income | € 10,868,517 |
| Total revenues | 10,868,517 |
| Net income | € 10,868,517 |

The accompanying notes are an integral part of the consolidated financial statements.

# Eurohypo Capital Funding Trust II
**(A Delaware Trust)**
## Consolidated Statement of Changes in Equity
## Year Ended December 31, 2011

*(in euros)*

| | Noncontrolling Interest | Common Stock | Preferred Stock | Retained Earnings | Total |
|---|---|---|---|---|---|
| **Balance, December 31, 2010** | € 2,000 | € 1,000 | € 300,000,000 | € 8,569,274 | € 308,572,274 |
| Dividend distribution | | | | (10,458,105) | (10,458,105) |
| Net income | | | | 10,868,517 | 10,868,517 |
| **Balance, December 31, 2011** | € 2,000 | € 1,000 | € 300,000,000 | € 8,979,686 | € 308,982,686 |

The accompanying notes are an integral part of the consolidated financial statements.

# Eurohypo Capital Funding Trust II
**(A Delaware Trust)**
## Consolidated Statement of Cash Flows
## Year Ended December 31, 2011

*(in euros)*

| | | |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income | € | 10,868,517 |
| Increase in accrued interest receivable | | (410,412) |
| Net cash provided by operating activities | | 10,458,105 |
| **Cash flows from financing activities** | | |
| Dividend distribution | | (10,458,105) |
| Net cash used in financing activities | | (10,458,105) |
| **Cash and cash equivalents** | | |
| Beginning of period | | 2,224 |
| End of period | € | 2,224 |

The accompanying notes are an integral part of the consolidated financial statements.

### 1. Nature of Operations and Organization

**General**

Eurohypo Capital Funding Trust II (the "Trust") is a statutory trust formed under the Delaware Statutory Trust Act, as amended (the "Trust Act"), pursuant to the Trust Agreement executed by Eurohypo Capital Funding LLC II (the "Company"), as sponsor, Deutsche Bank Trust Company Americas, as Property Trustee, and Deutsche Bank Trust Company Delaware, as Delaware Trustee, and the filing of the Trust Agreement with the Secretary of State of the State of Delaware on February 22, 2005.

The Trust was formed by Eurohypo Aktiengesellschaft, a bank incorporated in Germany ("the Bank"). The Bank is a wholly owned subsidiary of Commerzbank AG. Together with all its consolidated subsidiaries, including its branches, the Bank is engaged in a whole range of banking, financial, and related activities in Germany and abroad.

The Trust exists for the sole purposes of:

(1) Issuing perpetual Trust Preferred Securities representing undivided beneficial ownership interests in the assets of the Trust,

(2) Investing the proceeds from the issuance of the Trust Preferred Securities in the Company's Class B Preferred Securities, and

(3) Engaging in those other activities necessary or incidental thereto.

The Trust may also in the future issue, in one or more transactions, further Trust Preferred Securities with generally identical terms as the currently existing Trust Preferred Securities in consideration of the purchase of an equal number of additional Class B Preferred Securities issued by the Company.

The Trust was funded on March 8, 2005 through the issuance of 300,000 noncumulative Trust Preferred Securities with a liquidation preference value of €1,000 per security (the "Trust Preferred Securities") to various investors and one class of common security (the "Trust Common Security") to the Bank. The Trust used all the proceeds derived from the issuance of Trust Preferred Securities to purchase 300,001 noncumulative Class B Preferred Securities (liquidation preference €1,000 per security) issued by the Company (the "Class B Preferred Securities").

The Trust, as the Class B Preferred Security holder, is entitled to receive up to and including March 8, 2007 on an annual and noncumulative basis, cash dividend payments on such securities accruing at a rate of 6.75% per annum in arrears. This payment is not guaranteed and if not paid on one payment date in part or at all is noncumulative to any subsequent period. Payments after March 8, 2007 will be based on the EUR-ISDA-EURIBOR swap rate plus a margin of 0.1%, not to exceed 8.00% per annum, and will be payable annually in arrears. The Class B Preferred Securities may be redeemed by the Company beginning March 8, 2011 and thereafter on any Class B payment date. Interest rate as of December 31, 2011 was 3.653%.

As further discussed in Note 5, the Trust consolidates the Company, the issuer of the Class B Preferred Securities, under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("Codification" or "ASC") 810 - Consolidation. Accordingly, the Class B Preferred Securities are eliminated in consolidation.

The Company invested the proceeds from the issuance of Class B Preferred Securities in subordinated debt securities issued by the Bank. Accordingly, these securities represent the Trust's investments on a consolidated basis.

Trust capital payments are expected to be paid out of Class B Capital Payments received by the Trust from the Company. Class B Capital Payments are expected to be paid by the Company out of its Operating Profits. If the Company does not declare (and is not deemed to have declared) a Class B Capital Payment in respect of any Class B Payment Period, the Trust will have no right to receive a Class B Capital Payment in respect of such Class B Payment Period, and the Company will have no obligation to pay a Class B Capital Payment in respect of such Class B Payment Period, whether or not Class B Capital Payments are declared (or deemed to have been declared) and paid on the Company Class B Preferred Securities in respect of any future Class B Payment Period.

Class B Capital Payments are authorized to be declared and paid on any Class B Payment Date to the extent that:

- The Company has an amount of Operating Profits (as per offering document dated March 8, 2005) for the Class B Payment Period ending on the day immediately preceding such Class B Payment Date at least equal to the amount of such Class B Capital Payments, and

- The Bank has an amount of Distributable Profits (as per offering document dated March 8, 2005) for the most recent preceding fiscal year for which audited financial statements are available at least equal to the aggregate amount of such Class B Capital Payments and capital payments or dividends or other distributions or payments on Parity Securities, if any, pro rata on the basis of Distributable Profits for such preceding fiscal year.

Despite sufficient Operating Profits of the Company and sufficient Distributable Profits of the Bank, the Company will not be permitted to make Class B Capital Payments on any Class B Payment Date (or a date set for redemption or liquidation) if on such date there is in effect an order of the German Federal Agency for Financial Services (Bundesanstalt für Finanzdienstleistungsaufsicht) ("BaFin") or other relevant regulatory authority pursuant to the German Banking Act or any other applicable regulatory provision prohibiting the Bank from making any distributions of its profits (including to the holders of Parity Securities (as per offering document dated March 8, 2005)). The Company will have no obligation to make up, at any time, any Class B Capital Payments not paid in full by the Company as a result of insufficient Operating Profits of the Company, insufficient Distributable Profits of the Bank or an order of the BaFin.

Upon maturity or redemption of the debt securities issued by the Bank, the Company may reinvest the proceeds in other debt securities, subject to certain limitations.

The Bank is the owner of both the common equity and the Class A preferred security of the Company and the owner of the common equity of the Trust, such securities having a liquidation preference, in each case, of €1,000.

As the owner of the Class A preferred security of the Company, the Bank shall be entitled to receive capital payments on these Class A preferred securities, but only to extent that:

- Class B Capital Payments are not permitted to be paid on the Company Class B Preferred Securities in full on any Class B Payment Date due to insufficient Distributable Profits of the

Bank or on such date an order of the BaFin or other relevant regulatory authority pursuant to the German Banking Act or any other applicable regulatory provision prohibiting the Bank from making any distributions of its profits (including to the holders of Parity Securities) is in effect; and

- The Company has sufficient Operating Profits.

The Trust Preferred Securities are listed on the Euronext Amsterdam N.V. Stock Market and on the Börse Frankfurt. The number of Trustees shall initially be four and will in no event be less than three. At December 31, 2011, the Trust has four Trustees. At least one Trustee (the regular trustee) must be an employee or officer of, or is affiliated with the Bank. In addition, one Trustee shall be the Property Trustee and, as required by Delaware State Law, one Trustee will be a Delaware Trustee. The Regular Trustees are determined by a vote of the Common Security Holder of the Trust, which is the Bank.

**Trust Preferred Securities**
The Trust Preferred Securities issued are perpetual and have an initial redemption date of March 8, 2011 and annually thereafter on specified payment dates. Trust Preferred Securities have a stated dividend rate of 6.75% per annum payable in arrears until March 8, 2007, after which the dividend rate will be based on the EUR-ISDA-EURIBOR swap rate plus a margin of 0.1%, not to exceed 8.00% per annum, and will be payable annually in arrears. Such dividend payments are subject to the availability of funds based on the Class B Capital Payments the Trust receives from the Company on the Class B Preferred Securities in the respective payment period. Accordingly, if a dividend payment is not made in full or at all on any payment date, it is not cumulative to any subsequent period. The Trust Preferred Securities are not redeemable at any time at the option of the holder thereof, and can only be redeemed by the Trust in conjunction with a redemption of the Class B Preferred Securities issued by the Company. Upon occurrence of such event, the redemption price per Trust Preferred Security equals €1,000 per security (liquidation preference), plus any accrued and declared (or deemed declared) dividends.

**Support Undertaking**
The Bank entered into a Support Undertaking with the Company on March 8, 2005 pursuant to which the Bank undertakes that (i) the Company will at all times be in a position to meet its obligations if and when such obligations are due and payable, and (ii) in the event of a liquidation of the Company, it will have sufficient funds to pay the aggregate liquidation preference amount of the Class B Preferred Securities. The Bank's obligations under the Support Undertaking are subordinated to all of its senior and subordinated debt obligations.

## 2. Summary of Significant Accounting Policies

**Basis of Presentation and Use of Estimates**
The financial statements are prepared in conformity with accounting principles generally accepted in the United States of America, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses for the year then ended. Actual results could differ from those estimates.

These consolidated financial statements include the accounts of the Trust as well as the Company, a variable interest entity in which the Trust is the primary beneficiary as defined by ASC 810. All intercompany transactions and balances have been eliminated.

### Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash and amounts due from banks and other financial institutions, including short-term investments and other financial instruments which are readily convertible into known amounts of cash with an original maturity of 90 days or less. There were no cash equivalents outstanding at December 31, 2011.

### Investments

The subordinated debt securities issued by the Bank are the sole investment of the Trust on a consolidated basis. The Trust's securities investment has been designated as held to maturity as the Trust has the intent to hold these securities until maturity and the available evidence does not indicate that it is more likely than not that the Trust will be required to sell the security before its recovery. These securities are carried at amortized cost on the consolidated balance sheet. Held to maturity securities are evaluated for impairment based on various factors, including the length of time and extent to which the fair value has been less than cost. If, based on such analysis, it is determined that an impairment is other than temporary, the respective security is written down to fair value. The amount of the total other than temporary impairment related to the credit loss is recorded in current income. The amount related to other factors is recognized in other comprehensive income, net of applicable taxes.

### Securities Issued by the Trust

The Trust Preferred Securities are classified as equity as they have the characteristics of equity instruments rather than debt securities. Accordingly, dividends declared on the Trust Preferred Securities are not recorded in current income, but are rather recorded as a reduction of retained earnings when declared.

The common equity security issued by the Trust and the Company, and the Class A preferred security issued by the Company represent ownership rights in the Company and Trust, respectively and are classified as equity. These securities are held by the Bank.

### Functional Currency

The functional currency of the Trust is the Euro. The Trust's activities are governed by agreements, which effectively limit the operating activities to the issuance of the Trust Preferred Securities and the reinvestment of the proceeds initially in securities issued by the Bank and subsequently in other securities, as permitted. All of the Trust's activities, including its equity, are denominated in Euros.

### Income Taxes

The Trust is treated as a Grantor Trust for U.S. federal income tax purposes. Accordingly, in computing its U.S. federal income tax liability for a taxable year, U.S. holders of Trust Preferred Securities are required to take into account their distributive share of the Trust's income for the taxable year of the Trust ending with or within such U.S. holders' taxable year, regardless of whether such U.S. holders have received any distributions from the Trust. Accordingly, the Trust has made no provisions for federal or state income taxes in the accompanying statement of income.

### Recent Accounting Pronouncements

In December 2011, the FASB amended accounting principles related to the disclosures about offsetting assets and liabilities (ASC 210). The amendment requires an entity to disclose both gross information and net information about both instruments and transactions subject to an agreement similar to a master netting arrangement, including derivatives, sale and repurchase agreements and reverse sale and repurchase agreement, and securities borrowing and securities lending arrangement. The amendment effective in 2013 is not expected to significantly affect the Trust's financial statements.

In May 2011, the FASB amended accounting principles related to the fair value measurement and disclosure to achieve common requirements in accounting principles generally accepted in the United States of America and International Financial Reporting Standards (ASC 820). Consequently, the amendment changes the wording used to describe many of the requirements in accounting principles generally accepted in the United States of America for measuring fair value and for disclosing information about fair value measurements. Some of the amendments clarify the FASB's intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The amendment effective in 2012 is not expected to significantly affect the Trust's financial statements.

In April 2011, the FASB amended accounting principles related to a creditor's determination of whether a restructuring is a troubled debt restructuring (ASC 310). The amendment provides additional guidance and clarification in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for the purposes of determining whether a restructuring constitutes a troubled debt restructuring. The amendment effective in 2012 is not expected to significantly affect the Trust's financial statements.

## 3. Dividends

On March 3, 2011, the Bank's audited unconsolidated financial statements included in its annual report for the year 2010 showed no Bank Distributable Profit. Due to the lack of Bank Distributable Profit and the lack of Capital Payments, dividends or other distributions on Parity Securities, no Class B Capital Payment was declared with respect to the payment date of March 8, 2011.

In accordance with Section 7.03 (b) of the Amended and Restated Limited Liability Company Agreement of the Company, the board of directors declared a capital payment to the Class A preferred security holder in an amount equal to interest received on the Bank's subordinated notes. On March 8, 2011, the Company declared and paid dividends of €10,458,105 on the Class A Preferred Security.

## 4. Optimization of Bank's Capital structure

On January 21, 2011, the Bank's sole shareholder – Commerzbank AG ("Commerzbank") – completed a capital measure to optimize its capital structure pursuant to which Commerzbank issued approximately 118 million shares. The new shares were fully underwritten by Credit Suisse Securities (Europe) Limited against the contribution of hybrid equity instruments issued by companies in the Commerzbank Group, including the Trust. Pursuant to this transaction, Trust Preferred Securities issued by the Trust in an aggregate nominal value of €79,904,000 were transferred to Commerzbank.

On December 14, 2011 the Bank completed an additional measure to further strengthen its capital structure. Overall, investors in selected hybrid equity instruments (Trust Preferred Securities) issued by companies of the Commerzbank Group have offered to sell €1.27 billion equivalent in aggregate principal amount of these instruments to Commerzbank, against cash consideration. Pursuant to this transaction, Trust Preferred Securities issued by the Trust in an aggregate nominal value of €67,950,000 were transferred to Commerzbank.

As contemplated in the Amended and Restated Trust Agreement, Trust Preferred Securities beneficially owned by the Bank (directly or indirectly) will not be entitled to vote or consent and will, for purposes of such vote or consent, be treated as if such Trust Preferred Securities were not outstanding. Thus, such transfer of Trust Preferred Securities may result in an exclusion of those Trust Preferred Securities in a vote or consent.

## 5. Variable Interest Entity

The Trust invests in the Class B Preferred Securities issued by the Company. The Trust has determined that the Company is a variable interest entity ("VIE") as defined by ASC 810. As the sole holder of the Class B Preferred Securities, the Trust is the primary beneficiary of the Company and accordingly has consolidated the VIE. The effect of consolidating the Company on the Trust's statement of financial condition at December 31, 2011 was the elimination of investments in Class B Preferred Securities of the VIE of €300,001,000, as well as the recording of investments in held to maturity securities of €300,003,000, equity representing the Common Securities and Class A Preferred Securities issued by the VIE to the Bank of €2,000, and cash of €2,001.

## 6. Investments

The Company invested €300,003,000 in subordinated debt securities issued by the Bank. These securities bear a fixed interest rate of 6.75% until March 8, 2007, after which date the interest rate converts to EUR-ISDA-EURIBOR swap rate plus 0.1%, not to exceed 8.00%. Interest is paid annually. Beginning March 8, 2011, the Bank has a unilateral right to redeem these securities which have a final maturity date of March 8, 2045. Accrued interest receivable on the note amounted to €8,977,462 at December 31, 2011. Interest income on the note for the year ended December 31, 2011 was €10,868,517. Interest rate as of December 31, 2011 was 3.653%.

The following table presents the amortized cost and fair value of the Company's investments in held to maturity securities:

| | December 31, 2011 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| Subordinated debt securities issued by Eurohypo AG | € 300,003,000 | € - | € 195,301,953 | € 104,701,047 |
| | € 300,003,000 | € - | € 195,301,953 | € 104,701,047 |

The estimated fair value of these securities has been less than amortized cost for more than twelve months. While the decline of fair value below amortized cost is significant, the Company has determined that the issuer of these securities has sufficient liquidity and capital resources to continue making principal and interest payments when due. The Company has the intent and ability to hold these securities to redemption (which requires repayment of principal and applicable interest, if any), as the Company's financing is perpetual, and cannot be early redeemed prior to redemption of the held to maturity securities.

## 7. Fair Value of Financial Instruments

All financial instruments, other than those held to maturity securities noted below, have carrying values on the consolidated balance sheet that approximate fair value. As there is no active market for the Company's investment in affiliated subordinated debt securities, the fair value of such financial instruments is estimated based upon quotes for comparable securities issued by the Trust.

| | December 31, 2011 | |
|---|---|---|
| | Carrying Value | Estimated Fair Value |
| Investment in affiliated subordinated debt securities | € 300,003,000 | € 104,701,047 |

## 8. Related Party Transactions

At December 31, 2011, the Trust maintained cash accounts amounting to €2,224 with the Bank.

As disclosed in Note 1 above, the Trust has an investment in the Company, an affiliated company, which is consolidated in these financial statements.

As also discussed in Note 1, the Bank is the owner of both the common equity and the Class A preferred security of the Company and the owner of the common equity of the Trust.

As common equity holder, the Bank is responsible for all set-up and on-going costs and expenses of the Trust and of the Company including routine administrative expenses, servicer costs, tax return preparation, taxes, and related items. The Trust and the Company have entered into a services agreement with the Bank pursuant to which the Bank, through its New York Branch, will provide administrative and other related services. The Bank is responsible to make all payments on the behalf of the Trust and the Company.

The Bank has also provided a Support Undertaking pursuant to which the Bank undertakes to ensure that the Company shall at all times be in a position to meet its obligations if and when such obligations are due and payable including its obligations to pay dividends and the redemption price.

## 9. Litigation

On October 7, 2010, a complaint was filed in the Court of Chancery of the State of Delaware against Eurohypo AG, Eurohypo Capital Funding LLC I and Eurohypo Capital Funding LLC II (such complaint was subsequently amended and supplemented on December 31, 2010), seeking (i) declaratory relief as to future payments under trust preferred securities issued by Eurohypo Capital Funding Trust I and Eurohypo Capital Funding Trust II and (ii) damages for breach of contract, breach of implied covenant of good faith and fair dealing and breach of fiduciary duty in connection with the nonpayment of interest on the trust preferred securities in 2011. Plaintiffs request, inter alia, the court to award Eurohypo Capital Funding Trust II damages in an amount of €10,236,000 representing the amount of the Capital Payment that was due March 8, 2010 and not paid, plus interest, legal fees and costs. Defendants moved to dismiss the complaint or stay in the litigation in favor of prior-filed litigation pending in Germany. The motion to dismiss or stay was fully briefed and argued. The court denied the motion to dismiss on July 8, 2011. Currently, the parties are in the midst of document production. At this early stage the Trust cannot predict how this litigation will be resolved. It is not possible for management of the Trust to assess the probability of an adverse outcome or reasonably estimate the amount of any potential loss. It is possible that the ultimate resolution of this matter, if unfavorable may be material to Trust's results of operations, financial condition and liquidity.

## 10. Subsequent Events

The Trust has evaluated subsequent events occurring after the balance sheet date until April 27, 2012. Based on this evaluation, the Trust has determined that no subsequent events, except as described below, have occurred which require recognition or disclosure in the financial statements.

No Class B Capital Payment was declared and paid with respect to the payment date of March 8, 2012 since the Bank's unconsolidated audited financial statements included in its annual report for the year 2011 shows no shows no Bank Distributable Profit. Consequently, no payments were made on the Class B Preferred Securities and the Trust Preferred Securities on March 8, 2012.

In accordance with Section 7.03 (b) of the Amended and Restated Limited Liability Company Agreement of the Company, the board of directors declared a capital payment to the Class A preferred security holder, which is the Bank, in an amount equal to interest received on the Bank's subordinated notes for the Capital Payment on March 8, 2012. The owner of Class A preferred securities is disclosed in Note 1 above.

On March 30, 2012, the European Commission informed the Federal Republic of Germany that it has changed the condition imposed on Commerzbank in 2009 to divest its subsidiary Eurohypo into a condition of scaled down operations. Accordingly, Commerzbank has to reduce in full both the state financing business (Public Finance) as well as the bulk of the commercial real estate financing (non-core areas Commercial Real Estate) of Eurohypo. A scaled-down part of the commercial real estate financing in Germany, United Kingdom, France, and Poland may be continued. In accordance with the conditions imposed by the European Commission, the non-core activities of Eurohypo (Public Finance and non-core areas in Commercial Real Estate) have to be clearly separated in organizational terms from the core activities (core areas in Commercial Real Estate).

As stated in the Eurohypo Capital Funding Trust II offering documents, any future capital payments are dependent on future distributable profits of the Bank and capital payments, dividends or other distributions on Parity Securities.

## Responsibility Statement by Regular Trustee

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim financial statements of the Trust give a true and fair view of the assets, liabilities, financial position and profit or loss of the Trust, and the interim management report of the Trust includes a fair review of the development and performance of the business and the position of the Trust, together with a description of the principal opportunities and risks associated with the expected development of the Trust.

New York, New York, April 27, 2012

Regular Trustees

(Clifford Rooke) (Stephen Cox)