

Financial Statements of

HSN FUNDING II

June 30, 2010

(Compiled without audit or review)

HSH N FUNDING II

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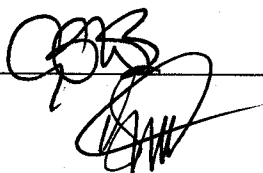
Statements of Financial Position *(compiled without audit or review)*


June 30, 2010 and December 31, 2009
(stated in United States dollars)

	Note	June 30, 2010	Dec. 31, 2009
Assets			
Silent Contribution	3,7	546,449,395	533,638,413
Loan receivable	4,7	553,000,000	553,000,000
Cash and cash equivalents	7	27,323,144	9,160,916
Total assets		US\$ 1,126,772,539	1,095,799,329
Liabilities and equity			
Liabilities			
Class B preference shares	5	413,919,172	399,799,100
Other Liabilities	5	1,528	1,528
		413,920,700	399,800,628
Shareholder's equity			
Share capital	6	10,000	10,000
Class A preference shares	6	590,658,000	590,658,000
Retained earnings		122,183,839	105,330,701
		712,851,839	695,998,701
Total liabilities and equity		US\$ 1,126,772,539	1,095,799,329

See accompanying notes to financial statements.

Approved on behalf of the Board of Directors on 31 AUGUST 2010

 _____ Director

 _____ Director

HSH N FUNDING II

Statements of Comprehensive Income *(compiled without audit or review)*

For the six months ended June 30, 2010 and 2009
(stated in United States dollars)

	Note	2010	2009
Income			
Net result from Silent Contribution	2(c)(iii), 3	12,810,983	-
Interest income on loan	4,7	18,138,400	18,138,400
Other interest income	7	23,827	18
		30,973,210	18,138,418
Finance costs			
Net result from Class B preference shares	2(c)(iii), 5	(14,120,072)	(9,062,500)
Net income before operating expenses		16,853,138	9,075,918
Other expenses		-	-
Net income for period, being comprehensive income	US\$	16,853,138	9,075,918

See accompanying notes to financial statements.

HSH N FUNDING II

Statements of Changes in Equity (*compiled without audit or review*)

For the six months ended June 30, 2010 and 2009

(*stated in United States dollars*)

	Share Capital	Class A Preference Shares	Retained Earnings	Total
Balance at December 31, 2008	10,000	590,658,000	54,471,864	645,139,864
Comprehensive income for period	-	-	9,075,918	9,075,918
Balance at June 30, 2009	10,000	590,658,000	63,547,782	654,215,782
Comprehensive income for period	-	-	59,907,919	59,907,919
Class A dividends paid	-	-	(18,125,000)	(18,125,000)
Balance at December 31, 2009 (audited)	10,000	590,658,000	105,330,701	695,998,701
Comprehensive income for period	-	-	16,853,138	16,853,138
Balance at June 30, 2010 US\$	10,000	590,658,000	122,183,839	712,851,839

See accompanying notes to financial statements.

HSH N FUNDING II

Statements of Cash Flows *(compiled without audit or review)*

For the six months ended June 30, 2010 and 2009

(stated in United States dollars)

	2010	2009
Cash provided by/(applied in):		
Operating activities		
Comprehensive income for period	16,853,138	9,075,918
Add/(deduct) net changes in non-cash operating balances:		
Interest receivable	-	(2,500)
Net change of Class B preference shares	14,120,072	-
Net change of Silent Contribution	(12,810,982)	-
Increase in cash and cash equivalents during period	18,162,228	9,073,418
Cash and cash equivalents at beginning of year	9,160,916	74,170
Cash and cash equivalents at end of period	US\$ 27,323,144	9,147,588
Supplementary information on cash flows from operating activities:		
Interest received	18,162,227	18,138,418
Class B dividends paid	-	9,062,500

See accompanying notes to financial statements.

HSH N FUNDING II

Notes to Financial Statements
(compiled without audit or review)
Period ended June 30, 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.

As at June 30, 2010 and 2009 the Company had no employees. The Company's registered office is located at Uglund 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 Maples Finance Limited ("MFL").

HSN FUNDING II

Notes to Financial Statements (continued)
(compiled without audit or review)
Period ended June 30, 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 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.

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

Profit participation under the Participation Agreement, interest income and Class B dividends are recognised on an accruals basis.

(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.

(ii) *Recognition*

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

HSN FUNDING II

Notes to Financial Statements (continued)

(compiled without audit or review)

Period ended June 30, 2010

(stated in United States dollars)

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(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.

The recalculated carrying amounts 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, following the revision of estimates, the discount-effect reduces with constant effective interest rate, leading to a write-up of the financial instruments. The related net income is recognized in the statement of comprehensive income (see notes 3 and 5).

Applying IAS 39.AG8 involves substantial assumptions, which are accompanied by uncertainties.

(iv) 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 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.

HSN FUNDING II

Notes to Financial Statements (continued)

(compiled without audit or review)

Period ended June 30, 2010

(stated in United States dollars)

2. Significant accounting policies (continued)

(v) *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.

(vi) *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

The Silent Contribution is classified as loans and receivables; it is measured initially at cost and subsequently measured at amortized 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.

Profit participations are recognized 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 instalments 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.

HSH N FUNDING II

Notes to Financial Statements (continued)

(compiled without audit or review)

Period ended June 30, 2010

(stated in United States dollars)

2. Significant accounting policies (continued)

(c) Financial 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 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.

(d) Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet 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.

HSH N FUNDING II

Notes to Financial Statements (continued)

(compiled without audit or review)

Period ended June 30, 2010

(stated in United States dollars)

3. Silent Contribution

The Company acquired a silent capital interest in the aggregate amount of US\$500,000,000 (2009: 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 (2009: US\$500,000,000).

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.

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 accrues 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 June 30, 2010 the balance on the Silent Contribution was US\$546,449,395 (December 31, 2009: US\$533,638,413) comprising the initial Silent Contribution of US\$500,000,000, the reduction arising from adjustments due to IAS39.AG8 of US\$45,585,326 (December 31, 2009: US\$58,396,309) and accrued profit participations of 92,034,722 (2009: US\$92,034,722).

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

	30.06.2010	30.06.2009
Net result from reestimating interest and redemption cash flows	-	-
Net result from discounting and compounding	12,810,983	-
Income from profit participation	-	-
Net result from Silent Contribution	12,810,983	-

HSH N FUNDING II

Notes to Financial Statements (continued)

(compiled without audit or review)

Period ended June 30, 2010

(stated in United States dollars)

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 June 30, 2010 the balance of the Class B preference shares was US\$413,919,172 (December 31, 2009: US\$399,799,100) comprising the initially issued amount of US\$500,000,000 and the reduction arising from adjustments due to IAS 39.AG8 of US\$86,080,828 (December, 31, 2009: US\$100,200,900).

The net result derived by the Class B preference shares comprises as follows:

	30.06.2010	30.06.2009
Net result from reestimating interest and redemption cash flows	-	-
Net result from discounting and compounding	(14,120,072)	-
Dividends	-	(9,062,500)
Net result from Class B preference shares	(14,120,072)	(9,062,500)

HSN FUNDING II

Notes to Financial Statements (continued)

(compiled without audit or review)

Period ended June 30, 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)

(compiled without audit or review)

Period ended June 30, 2010

(stated in United States dollars)

6. Share capital

	June, 30 2010	Dec. 31, 2009
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	10,000	10,000

During the period ended June 30, 2010 and December 31, 2009, there were no changes to issued and fully paid Ordinary Shares.

Issued and fully paid Class A preference shares:

	June 30, 2010		Dec. 31, 2009	
	Number	June, 30 2010	Number	Dec. 31, 2009
	of shares	US\$	of shares	US\$
Balance at beginning of period	590,658	590,658,000	590,658	590,658,000
Balance at end of period	590,658	US\$ 590,658,000	590,658	US\$ 590,658,000

HSN FUNDING II

Notes to Financial Statements (continued)

(compiled without audit or review)

Period ended June 30, 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 thereunder 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)

(compiled without audit or review)

Period ended June 30, 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	June 30, 2010	Dec. 31, 2009
Statements of Financial Position:			
Silent Contribution	3	546,449,395	533,638,413
Loan receivable	4	553,000,000	553,000,000
Cash and cash equivalents		27,323,144	9,160,916
	Note	June 30, 2010	June 30, 2009
Statement of Comprehensive Income:			
Net result from Silent Contribution Participation Agreement		12,810,983	-
Interest income on loan	4	18,138,400	18,138,400
Other interest income		23,827	18

Included in the cash-balance is an amount of US\$27,207,528 (December 31, 2009: US\$9,069,128) attributable to the Class A-shareholders as cash-dividend in 2010.

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

HSH N FUNDING II

Notes to Financial Statements (continued)

(compiled without audit or review)

Period ended June 30, 2010

(stated in United States dollars)

8. Credit, liquidity and market risk (continued)

Credit risk (continued)

As at June 30, 2010, and December 31, 2009 the Company's financial assets exposed to credit risk amounted to the following:

	Note	June 30, 2010	Dec. 31, 2009
Silent Contribution	3	546,449,395	533,638,413
Loan receivable	4	553,000,000	553,000,000
Cash and cash equivalents		27,323,144	9,160,916
		US\$ 1,126,772,539	1,095,799,329

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\$45,585,326.

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.

The terms of the Loan Agreement and Participation Agreement are similar to terms of Class A preference shares and Class B preference shares. 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 market risk or interest rate risk.

The majority of the Company's assets, liabilities, income and expenses are denominated in United States dollar the reporting currency of these financial statements. As such, the Company is deemed to have no significant exposure to currency risk.

HSH N FUNDING II

Notes to Financial Statements (continued)

(compiled without audit or review)

Period ended June 30, 2010

(stated in United States dollars)

9. 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.

10. New pronouncements

Relevant standards and amendments issued prior to June 30, 2010 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.

IAS 24 – *Related Party Disclosures* (Revised and effective January 1, 2011), is expected to impact the Company as the Company does fall within the scope of this new standard.

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.

11. Subsequent events

On August 20, 2010 HSH Nordbank AG informed via press-release about a Group net loss of €380 million for the period January 1 to June 30, 2010.

DIRECTORS' REPORT

For the six months ended June 30, 2010

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 Maples Finance 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 (appointed January 24, 2008)
Cleveland Stewart (independent) (appointed September 3, 2008)
George Bashforth (independent) (appointed December 11, 2008)

The Directors held no interests in the Company as at June 30, 2010.

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 June 30, 2010 amounted to US\$1,004,577,172 (December 31, 2009: 990,457,100)

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.

In 2009, the Company was informed by the Bank that the EU Commission has made it clear to the management board of the Bank and its shareholders that it would not retract its requirements under state aid law with respect to servicing and participating in the losses on hybrid capital instruments, including the Company's Class B preference shares. Pursuant to the EU Commission's requirements, the Bank would not be permitted to make any payouts on profit participation capital and silent partnerships in the event of a net loss or balance sheet loss for the fiscal year 2009. Furthermore, such capital instruments, including those held by the Company would have to participate in either the balance sheet loss or net loss for the fiscal year 2009.

As a consequence, the instruments described as US\$ 500,000,000 HSH Nordbank Sphere Securities with the ISIN XS0221141400 listed on Euronext Amsterdam issued on a fiduciary basis by Banque de Luxembourg were affected and no coupon payment were made for the profit period 2009. Furthermore, these instruments participated in the Bank's balance sheet

loss for the fiscal year 2009 via the Silent Contribution, the Company has acquired in the commercial enterprise of the Bank. The book value of the Bank's silent contribution was reduced by **16.401** percent to **83.599** percent.

In connection with these developments the Company revised its estimates of payments or receipts for the Silent Contribution and Class B preference shares and applied – for accounting purposes – IAS 39.AG8 to determine the carrying amount of these financial instruments. With respect to this issue the Directors would like to draw attention to notes 2, 3 and 5 of the financial statements.

The Company earned US\$18,162,227 (June 30, 2009: US\$18,138,418) as scheduled interest income from its asset classes during the reporting period.

Current market conditions have had a negative impact on the credit ratings and prices of the preference shares issued by the Company to the extent that the Company was – as in 2009 – not able to earn income from certain of its assets in the first half of 2010 and distribute such earnings to the holders of preference shares as initially scheduled.

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.

Whilst the Bank expects it will return to profitability in the future, when this may occur cannot currently be predicted by the management.

Results and Allocation

The Company reported a profit for the period of US\$16,853,138 and issued US\$ NIL Class A preference shares as payment in kind for an interim dividend.

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.

Post Balance Sheet Events

On August 20, 2010 HSH Nordbank AG informed via press-release about a Group net loss of €380 mill. for the period January 1 to June 30, 2010.

Management's Statement of Responsibility for Financial Reporting

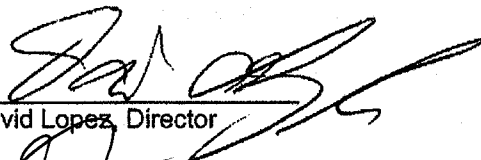
The financial statements of the Company have been prepared by management. Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining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

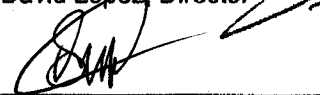
The Directors of the Company state that, to the best of their knowledge:

- the unaudited financial statements dated as at June 30, 2010, 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 9/1/, 2010



David Lopez, Director



Cleveland Stewart, Director



George Bashforth, Director