

HSH N Funding II: Participation in losses and non-payment of coupons for HSH Nordbank's hybrid capital

March 07, 2011

HSH N Funding II (the Company) announces the following:

The Company was informed by HSH Nordbank AG, Hamburg and Kiel ("the Bank"), that the financial statements for the business year 2010 of the Bank according to HGB ("Handelsgesetzbuch" / German GAAP) will report a balance sheet loss/net loss for 2010. Therefore, no coupon payments for the fiscal year 2010 will be made by the Bank on silent participations and profit participation capital. Moreover, these hybrid instruments will participate in the Bank's balance sheet loss/net loss.

For the instruments issued on a fiduciary basis by Banque de Luxembourg with ISIN XS0221141400 listed on Euronext Amsterdam which are based on a silent participation, this means that no coupon payment will be made for the profit period 2010 and that these instruments will participate in a balance sheet loss for the fiscal year 2010 via the silent participation. The book value of the silent participation was reduced by approx. 4 percent to approx. 79 percent. The exact amount of loss participation will be finally announced following the adoption of the Bank's financial statements by the Supervisory Board of the Bank on 31 March, 2011.

The following instrument issued on a fiduciary basis by Banque de Luxembourg is affected:

USD 500,000,000 HSH Nordbank Sphere Securities with the ISIN XS0221141400 listed on Euronext Amsterdam; quarterly coupon payments relating to fiscal year 2010 starting with first coupon payment date 30 June 2011

Description of the fiduciary structure:

With the proceeds of the issue of the SPHERE Securities, the Banque de Luxembourg has, in its own name but at the sole risk and for the sole benefit and account of the holders of the SPHERE Securities acquired 500,000 Class B Preference Shares issued by HSH N Funding II (the "Company"). With the proceeds of the issue of the Class B Securities, the Company acquired a silent participation in the commercial enterprise (Handelsgewerbe) of the Bank in the form of a Stille Gesellschaft under German law.

The SPHERE Securities are perpetual securities and have no fixed maturity date. They represent a pro rata interest in the Class B Securities and all payments actually received by the Fiduciary thereunder. The Fiduciary holds the Class B Securities in its own name, on a fiduciary basis, but solely at the risk and for the account of the Securityholders. The SPHERE Securities evidence a fiduciary contract between the Securityholders and the Fiduciary pursuant to which the Fiduciary is only obligated to pass on funds to the Securityholders actually received from the Company under the Class B Securities but has no other payment obligations to the Securityholders. The amounts of distributions under the Class B Securities depend, among others, on the profits of the Bank.

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