

## MARE BALTIC PCC LIMITED

(incorporated as a protected cell company with limited liability in Guernsey and with registered number 40490)  
(the "Issuer")

### DKK 434,129,000 IN AGGREGATE PRINCIPAL AMOUNT OF LIMITED RECOURSE SECURED ASSET BACKED NOTES DUE 2011

#### ("ScandiNotes I")

#### ISSUED PURSUANT TO A €1,000,000,000 STRUCTURED NOTE PROGRAMME BY THE SERIES 2003-1 CELL OF MARE BALTIC PCC LIMITED

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| Class | Security Code | Original Principal Amount<br>DKK | Interest Rate <sup>(1)</sup> | Maturity Date <sup>(4)</sup> |
|-------|---------------|----------------------------------|------------------------------|------------------------------|
| A     | DK000344443-8 | 388,448,000                      | 2.00% <sup>(2)</sup>         | 7 June 2011                  |
| B     | DK000344451-1 | 45,681,000                       | 2.00% <sup>(3)</sup>         | 7 June 2011                  |

- (1) Interest is payable annually on 7 June in each year up to (and including) the interest payment date falling in June 2008 and thereafter semi annually on 7 December and 7 June in each year (and in each case subject to a Modified Following Business Day Convention).
- (2) The Interest Rate on the Class A 2% Limited Recourse Secured Senior Notes due 2011 for each interest period commencing in or after June 2008, shall be (i) 2% plus (ii) the rate derived from the cash, if any, expected to be available to the Issuer apportioned between the Class A Notes and the Class B Notes after paying interest pursuant to (i) above and certain expenses calculated as set out in the Special Conditions on page 6.
- (3) The Interest Rate on the Class B 2% Limited Recourse Secured Junior Notes due 2011 for each interest period commencing in or after June 2008, shall be (i) 2% plus (ii) the rate derived from the cash, if any, expected to be available to the Issuer apportioned between the Class A Notes and the Class B Notes after paying interest pursuant to (i) above and certain expenses calculated as set out in the Special Conditions on page 6.
- (4) The Class A 2% Limited Recourse Secured Senior Notes due 2011 and the Class B 2% Limited Recourse Secured Junior Notes due 2011 are subject to an Issuer call on or after the interest payment date falling in June 2008.
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This document constitutes the Supplemental Information Memorandum relating to the issue of DKK 434,129,000 Limited Recourse Secured Asset Backed Notes due 2011 (the "Notes" or the "ScandiNotes I") in two classes, the Class A 2% Limited Recourse Secured Senior Notes due 2011 (the "Class A Notes") and the Class B 2% Limited Recourse Secured Junior Notes due 2011 (the "Class B Notes") (as further described herein) by the Series 2003-1 Cell of Mare Baltic PCC Limited (the "Issuer") pursuant to the €1,000,000,000 Structured Note Programme established by the Issuer (the "Programme"). The Class A Notes rank ahead of the Class B Notes in respect of payments of principal and interest. Noteholders' recourse shall be limited to the Charged Assets of the Series 2003-1 Cell and shall be subject to the orders of priority set out herein and Noteholders shall have no further recourse against the Issuer or its assets. Terms used herein shall be deemed to be defined as such for the purposes of the conditions set forth in the Information Memorandum dated 4 July 2003. Terms and expressions defined in the Information Memorandum have the same respective meanings when used in this Supplemental Information Memorandum.

Application has been made to the Copenhagen Stock Exchange A/S (the "Copenhagen Stock Exchange") for the ScandiNotes I to be listed on the Copenhagen Stock Exchange.

The ScandiNotes I will be issued to HSH Nordbank AG, Copenhagen branch ("HSH Nordbank") for its own account and will be onsold to investors at prevailing market prices.

**THIS DOCUMENT IS SUPPLEMENTAL TO AND MUST BE READ IN CONJUNCTION WITH THE INFORMATION MEMORANDUM DATED 4 JULY 2003 ISSUED IN RELATION TO THE PROGRAMME INCLUDING WITHOUT LIMITATION THE SECTION ENTITLED "RISK FACTORS" BEGINNING ON PAGE 10 OF THE INFORMATION MEMORANDUM.**

The date of this Supplemental Information Memorandum is 4 July 2003

Arranger and Dealer



HSH NORDBANK AG,  
COPENHAGEN BRANCH

**IMPORTANT NOTICE**

Mare Baltic has made the statement contained in the following paragraph:

“We hereby confirm that, to the best of our knowledge and belief, the information contained in this Supplemental Information Memorandum is in accordance with the facts and that, to the best of our knowledge and belief, this Supplemental Information Memorandum does not omit any information likely to affect the import thereof, and also that the Supplemental Information Memorandum contains all relevant information from minutes of board meetings, long-form audit reports and other internal documents.”

**Mare Baltic PCC Limited**

HSH Nordbank as arranger has made the following statement:

“In our capacity as Arranger, we hereby confirm that the Issuer and the Issuer’s auditors have made available to us all the information requested and deemed necessary by us. The data provided or disclosed to us, including data on which financial information and market information are based, have not been independently verified by us; however, we have reviewed the information and have compared it with the information contained in this Supplemental Information Memorandum and have found nothing that is incorrect or inconsistent with this Supplemental Information Memorandum.”

**HSH Nordbank AG, Copenhagen branch**

The Arranger and Dealer, the Counterparties and the Trustee have not separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Arranger and Dealer, any Counterparty or the Trustee as to the accuracy or completeness of the financial information contained herein, or any other financial statements or any further information supplied in connection with the Programme or the ScandiNotes I or their distribution. The statements made in this paragraph are without prejudice to the responsibility of the Issuer under the Programme.

No person is or has been authorised to give any information or to make any representation not contained in or not consistent with this Supplemental Information Memorandum or any other financial statements or further information supplied pursuant to the terms of the Programme or the ScandiNotes I and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Arranger and the Dealer, the Trustee or any Counterparty.

Neither this Supplemental Information Memorandum nor any other statements or any further information supplied pursuant to the terms of the Programme or the ScandiNotes I are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation or constituting an invitation or offer by or on behalf of any of the Issuer, the Trustee, the Arranger and Dealer or any Counterparty that any recipient of this Supplemental Information Memorandum or any other financial statements or any further information supplied pursuant to the terms of the Programme or the ScandiNotes I should subscribe for or purchase any of the ScandiNotes I. Each investor contemplating purchasing the ScandiNotes I should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer.

The delivery of this Supplemental Information Memorandum does not at any time imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other financial statements or any further information supplied pursuant to the terms of the Programme or the ScandiNotes I is correct as of any time subsequent to the date indicated in the document containing the same. The Arranger and Dealer, the Counterparties and the Trustee expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme. Investors should review, *inter alia*, the most recent financial statements (if any) of the Issuer when deciding whether or not to purchase any Notes.

A copy of this Supplemental Information Memorandum has been delivered to the Guernsey Financial Services Commission in accordance with The Control of Borrowing (Bailiwick of Guernsey) Ordinances, 1959 to 1989 and it has given, and has not withdrawn, its consent to its circulation.

It must be distinctly understood that, in giving these consents, neither the Guernsey Financial Services Commission nor the States Advisory and Finance Committee takes any responsibility for the financial soundness of the Issuer or of any schemes or for the correctness of any statements made, or opinions expressed, with regard to it.

If you are in any doubt about the contents of this document you should consult your stockbroker, bank manager, solicitor, accountant or other financial adviser.

It should be remembered that the price of securities and the income from them can go down as well as up.

An investment in the ScandiNotes I is only suitable for financially sophisticated investors who are capable of evaluating the merits and risks of such investment and who have sufficient resources to be able to bear any losses which may result from such an investment.

The distribution of this Supplemental Information Memorandum and the offer or sale of any of the ScandiNotes I may be restricted by law in certain jurisdictions. No action has been taken by the Issuer, the Arranger, the Dealer, any Counterparty or the Trustee (save for the approval of this Supplemental Information Memorandum by the Copenhagen Stock Exchange) which would permit a public offering of any of the ScandiNotes I or distribution of this Supplemental Information Memorandum in any jurisdiction where action for that purpose is required. In particular, the ScandiNotes I have not been and will not be registered under the United States Securities Act of 1933 and may be subject to U.S. tax law requirements. Subject to certain exceptions, the ScandiNotes I may not be offered, sold or delivered within the United States or to U.S. persons. Persons into whose possession this Supplemental Information Memorandum or any of the ScandiNotes I come must inform themselves about, and observe, any such restrictions. For further information see "Selling Restrictions" in the Information Memorandum.

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**DESCRIPTION OF TRANSACTION**

*This section must be read in conjunction with the section headed "Risk Factors" on page 10.*

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|-----|--|--|
| 1.  | Issuer(s):<br>Cell of Issuer which is the debtor in relation to the Notes and is established as a segregated cell in accordance with the Guernsey Protected Cell Companies Ordinance, 1997 to 1998 (as amended): | Mare Baltic PCC Limited<br>Series 2003-1 Cell  |
| 2.  | (i) Series Number:<br>(ii) Tranche Number:   | Series 2003-1 (the " <b>ScandiNotes I</b> ")<br>Class A Notes - Tranche 1<br>Class B Notes - Tranche 1 |
| 3.  | Specified Currency or Currencies:  | Danish Kroner  |
| 4.  | Nominal Amount:<br>(i) Series:<br>(ii) Tranche:  | DKK 434,129,000<br>Class A Notes - DKK 388,448,000<br>Class B Notes - DKK 45,681,000                   |
| 5.  | Specified Denominations:   | DKK 0.01   |
| 6.  | Issue Date:  | 4 July 2003  |
| 7.  | Scheduled Maturity Date:   | 7 June 2011  |
| 8.  | Interest Basis:  | Fixed Rate   |
| 9.  | Redemption/Payment Basis:  | Redemption at par  |
| 10. | Change of Interest Basis or Redemption/Payment Basis:  | Not Applicable   |
| 11. | Purchase Option:   | Not Applicable   |
| 12. | Put/Call Options:  | Issuer Call. See paragraph 17 below.   |
| 13. | Listing:   | Copenhagen   |
| 14. | Method of distribution:  | Non-syndicated   |

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

- |     |  |  |
|-----|--|--|
| 15. | <b>Fixed Rate Note Provisions:</b>                             | Applicable   |
|     | (i) Rate(s) of Interest:                                       | 2 per cent. per annum payable annually in arrear for each interest period up to and including the interest period ending on the Interest Payment Date in June 2008 and thereafter a rate calculated in accordance with Special Condition A below |
|     | (ii) Interest Payment Date(s):                                 | 7 June in each year up to and including June 2008 and thereafter on 7 December and 7 June in each year   |
|     | (iii) Business Day Convention:                                 | Modified Following Business Day Convention.<br>The amount of interest payable will not be adjusted   |
|     | (iv) Business Day(s):  | Copenhagen   |
|     | (v) Additional Business Centre(s):                             | Not Applicable   |
|     | (vi) Fixed Coupon Amount(s):                                   | Not Applicable   |
|     | (vii) Broken Amount(s):  | Not Applicable   |
|     | (viii) Day Count Fraction:                                     | Actual/Actual  |
|     | (ix) Determination Date(s):                                    | 3 Business Days prior to each Interest Payment Date  |
|     | (x) Other terms relating to the method of calculating interest | See Special Condition A below  |

for Fixed Rate Notes:

16. **Floating Rate Note Provisions:** Not Applicable

**PROVISIONS RELATING TO REDEMPTION**

17. Issuer Call: Applicable
- (i) Optional Redemption Date(s) and Redemption Option Period: On an Interest Payment Date in or after June 2008 if, and only if, the aggregate principal amount of the outstanding ScandiNotes I is 15% or below of the original aggregate principal amount of ScandiNotes I at the Issue Date by virtue of payments under Special Condition B or other redemptions or principal payments in accordance with the Conditions and the interest income which is expected by the Operation Services Provider to be generated by the Repackaging Assets is insufficient to pay all amounts expected by the Operation Services Provider to be due and owing ahead of interest on the ScandiNotes I and to pay a minimum interest rate of 2% on the ScandiNotes I. Such an optional redemption is subject to monies being available to the Issuer to make payment to the Noteholders which is dependent on the Issuer selling the Repackaging Assets and the net proceeds of sale of the Repackaging Assets being sufficient, following payment of all amounts which rank in priority to such payment to Noteholders, to repay principal plus accrued interest on the outstanding ScandiNotes I.
- (ii) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s): Principal and accrued interest on the ScandiNotes I
- (iii) Notice period (if other than as set out in the Conditions): 20 calendar days' prior notice to an Optional Redemption Date
18. Investor Put: Not Applicable
19. Final Redemption Amount of each Note: Nominal Amount outstanding
20. Early Redemption Amount of each Note payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 6(g)): Not Applicable

**GENERAL PROVISIONS APPLICABLE TO THE NOTES**

21. Form of Notes: Negotiable Dematerialised Notes
22. Redenomination, renominatisation and reconventioning provisions: Redenomination not applicable but this is without prejudice to Condition 17 which shall apply
23. Special Conditions: **Special Condition A. - Interest after June 2008**  
Interest on the Class A Notes shall accrue, in relation to each Interest Period commencing on or after the Interest Payment Date in June 2008 and shall be recalculated semi-annually with effect from each Interest Payment Date falling on or after the Interest Payment Date in June 2008. This interest shall be calculated as:  
  
(i) a rate of 2.00% per annum applied to the principal amount of Class A Notes outstanding from time to time; plus

(ii) the Class A Notes' allocation of the amount of cash, if any, expected to be available to the Issuer arising on the Repackaging Assets or any other investments held by the Issuer other than amounts in respect of principal on the Repackaging Assets or a final payment under the Hedging Agreement (as to which see below) and after paying interest in accordance with (i) above, such allocation to be expressed as a rate per annum on the outstanding principal of the Class A Notes. The allocation between the Class A Notes and the Class B Notes will be pro rata to the principal amount of each class of ScandiNotes I remaining outstanding, after paying the expenses ranking ahead of interest in the relevant Order of Priorities (as to which see below).

Interest on the Class B Notes shall accrue, in relation to each Interest Period commencing on or after the Interest Payment Date in June 2008 and shall be recalculated semi-annually with effect from each Interest Payment Date falling in or after the Interest Payment Date in June 2008. This interest shall be calculated as:

(i) a rate of 2.00% per annum applied to the principal amount of Class B Notes outstanding from time to time; plus

(ii) the Class B Notes' allocation of the amount of cash, if any, expected to be available to the Issuer arising on the Repackaging Assets or any other investments held by the Issuer other than amounts in respect of principal on the Repackaging Assets or a final payment under the Hedging Agreement (as to which see below) and after paying interest in accordance with (i) above, such allocation to be expressed as a rate per annum on the outstanding principal of the Class B Notes. The allocation between the Class A Notes and the Class B Notes will be pro rata to the principal amount of each class of ScandiNotes I remaining outstanding, after paying the expenses ranking ahead of interest in the relevant Order of Priorities (as to which see below).

The Issuer shall notify Noteholders in accordance with Condition 6(b)(v) of such calculation of interest on the Class A Notes and the Class B Notes for an Interest Period within 15 Business Days of the commencement of such Interest Period.

#### **Special Condition B. - Principal Payments**

The Issuer will make principal payments to partially redeem the ScandiNotes I on each Interest Payment Date falling on or after June 2008 to the extent that it has received principal repayments from the Borrowers under the Repackaging Assets or a final payment under the Hedging Agreement. Such amounts of principal will be applied first to reduce the amounts of principal of the Class A Notes and any other expenses ranking ahead of principal on the Class B Notes in the relevant Order of Priorities (as to which see below) and only when the Class A Notes and such expenses have been repaid in full will principal on the Class B Notes be repaid.

#### **Special Condition C. - Amendments to the Conditions**

Conditions 7(b)(i)(A), 7(b)(i)(B), 7(b)(i)(C), 7(b)(i)(E) and 7(b)(i)(G) shall not apply to the ScandiNotes I.

**Special Condition D. - Security**

For the purposes of the Conditions, the Pledge Agreement (described on page 22 below) shall be a Supplementary Security Document.

**Special Condition E. - Investments**

After the items referred to in paragraphs (a) to (g) of the pre-enforcement Order of Priorities have been paid in full, the Issuer may invest any recoveries it receives from a Borrower under or in relation to the Repackaging Assets which have suffered an RA Event (as defined below) or from the Hedging Counterparty in respect of a termination in full of the Hedging Agreement in Danish Kroner denominated government or municipal bonds, Danish Kroner denominated bonds issued by Danish mortgage credit institutions or investment grade paper with a maturity and currency profile matching the payment obligations of the Issuer in respect of principal and interest on the ScandiNotes I, subject to putting in place security arrangements over such investments in favour of the Secured Creditors to the satisfaction of the Trustee and provided that such investment provides for a return of 2% or more, failing which such amounts shall be applied in paying down principal on the ScandiNotes I. Such amounts of principal will be applied first to reduce the amounts of principal of the Class A Notes and any other expenses ranking ahead of the principal on the Class B Notes in the relevant Order of Priorities (as to which see below) and only when the Class A Notes and such expenses have been repaid in full will principal on the Class B Notes be repaid. Any such investments will constitute Related Assets for the purposes of the Conditions.

An "**RA Event**" means the circumstances in which there is a default or deferral (in either case, whether or not caused by force majeure) by any of the Borrowers of any interest or instalments under the Repackaging Assets when due (after expiry of any applicable grace periods) or any Borrower has stated that it intends to defer or repudiate its obligations, for whatever reason, under or in respect of the Repackaging Assets.

|                     |  |                            |
|---------------------|--|----------------------------|
| 24.                 | Instructing Creditor:  | Noteholders                |
| <b>DISTRIBUTION</b> |  |                            |
| 25.                 | (i) If syndicated, names of Managers:                                      | Not Applicable             |
|                     | (ii) Stabilising Manager (if any):   | Not Applicable             |
| 26.                 | If non-syndicated, name of relevant Dealer:                                | HSH Nordbank               |
| 27.                 | Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable: | TEFRA rules not applicable |

28. Additional selling restrictions: Each Dealer has represented and agreed that it has not offered or sold and will not offer to sell or deliver any of the Notes directly or indirectly in Denmark by way of public offer unless in compliance with the Danish Act no. 1072 of 20 December 1995 on Trading in Securities as amended and Executed Orders thereunder. The Notes are issued as Dematerialised Notes. Notes registered in the VP are not subject to any restrictions on free negotiability within the Kingdom of Denmark under Danish law.

#### OPERATIONAL INFORMATION

29. Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s): The Danish Securities Centre (*Værdipapircentralen*) (the “VP”).
30. Delivery at Issue: Delivery against payment
31. Governing Law: English Law
- ISIN: Class A Notes - DK000344443-8  
Class B Notes - DK000344451-1

#### DESCRIPTION OF UNDERLYING ASSETS

The payment of principal and or interest on the Notes is linked to and wholly dependent upon payments being received by the Issuer in respect of loans acquired by the Issuer made to certain Danish commercial and savings banks (as further described in the section entitled “The Danish Banking Industry” below) (the “**Repackaging Assets**”) and upon payments being received by the Issuer from the Hedging Counterparty in respect of the Hedging Agreement (as further described in the section entitled “The Hedging Agreement” below). Please refer to pages 14 and 20 for further details.

## RISK FACTORS

*An investment in the ScandiNotes I involves certain risks. The following is a summary of certain aspects of the ScandiNotes I, the Repackaging Assets and the Hedging Agreement about which prospective Noteholders should be aware, but it is not intended to be exhaustive, and prospective Noteholders should read the detailed information set out elsewhere in this Supplemental Information Memorandum and in the Information Memorandum. Capitalised terms used but not otherwise defined in this section have the respective meanings set forth in the Conditions.*

### General

Prospective investors in the ScandiNotes I should conduct such independent investigation and analysis regarding the Repackaging Assets, the ScandiNotes I, the Hedging Agreement and all other relevant persons and market and economic factors as they deem appropriate to evaluate the merits and risks of an investment in the ScandiNotes I. The Issuer and the Dealer disclaim any responsibility to advise investors of the risk and investment considerations associated with an investment in the ScandiNotes I as they may exist at the date hereof or at any time thereafter.

Investment in the ScandiNotes I is only suitable for investors who:

- (i) have the requisite knowledge and experience in financial and business matters, and access to and knowledge of appropriate analytical resources to evaluate the merits and risks of an investment in the ScandiNotes I in the context of such investors' financial position and circumstances; and
- (ii) are capable of bearing the economic risk of an investment in the ScandiNotes I until the maturity of the ScandiNotes I.

Further, each prospective investor in the ScandiNotes I must determine, based on its own independent review and such professional advice as it deems appropriate under the circumstances, that its acquisition of the ScandiNotes I and the accounting, commercial, taxation, regulatory and legal consequences thereof (i) are fully consistent with its needs, objectives and conditions and (ii) comply and are fully consistent with all investment policies, guidelines and restrictions applicable to it and that the ScandiNotes I are a fit, proper and suitable investment for it, notwithstanding the risks inherent in investing in or holding the ScandiNotes I.

### Credit Considerations

The ScandiNotes I are solely the obligation of the Issuer. In particular, the ScandiNotes I are not the obligation or responsibility of, or guaranteed by, the Trustee, the Arranger, the Dealer, the Paying Agent, any Counterparty or any of the Borrowers (the "**Borrowers**") under the Repackaging Assets. Apart from the Issuer, none of those persons will accept any liability whatsoever to the Noteholders in respect of any failure by the Issuer to pay any amount due under the ScandiNotes I.

Prospective investors in the ScandiNotes I should be aware that the Issuer's ability to pay the principal of and interest on the ScandiNotes I is partly dependent upon the Issuer receiving interest and instalments from each of the Borrowers when due.

The Repackaging Assets have the status of subordinated capital under the Danish law on banks and savings banks, consolidated Act no. 214 of 25 March 2003 ("*Lov om banker og sparekasser m.v.*") (the "**Danish Banking Act**"), article 22(2), and the executive order of the Danish Financial Supervisory Authority (*Finanstilsynet*) (the "**Danish FSA**") no. 861 of 21 October 2002 on subordinated capital. Thus, in the case of liquidation or bankruptcy of the financial institution, the Noteholders will not receive any distribution or payment before all general creditors including depositors of the financial institution concerned have received repayment of their claims. This means that any demand for repayment under the Repackaging Assets and unpaid interest are subordinated to all other unsubordinated debt in the individual financial institution.

Accordingly, investors in the ScandiNotes I are exposed to a greater credit risk in relation to each of the Borrowers than they would be if the Repackaging Assets comprised other debt of the relevant Borrowers, due to the fact that the Repackaging Assets are subordinated to unsubordinated debt.

Prospective investors should, therefore, independently investigate and analyse the credit risk on the ScandiNotes I due to the fact that the investor will bear the first loss deriving from non-payment by the Borrowers since the Repackaging Assets are treated as subordinated capital for Danish banks.

### The Class B Notes

Investors in the Class B Notes should note that these Notes are junior to the Class A Notes and will be redeemed only after all Class A Notes have been redeemed. The Class B Notes therefore will bear the first loss arising out of defaults by the Borrowers or the Hedging Counterparty or arising out of the unhedged position which may prevail if all outstanding Repackaging Assets are not redeemed on the Interest Payment Date falling in June 2008.

The Class B Notes also have a greater exposure to the Hedging Counterparty in relation to the amount of the final payment under the Hedging Agreement as to which see “Risks associated with the Hedging Agreement” below.

#### **Postponement of interest payment**

Each individual Borrower under the loans comprising the Repackaging Assets has the right to postpone interest payments under the relevant loan should such Borrower fail to comply with the solvency requirement in the Danish Banking Act on the due date for the relevant loan and the Danish FSA determines that such Borrower should call a meeting of its supreme governing body and report on its financial position, according to the Danish Banking Act.

Unpaid interest, which has been postponed as a consequence of the above, will be due for payment on the occurrence of the first of the following events:

- (1) the Borrower again complies with the solvency requirements;
- (2) the final repayment date of the Repackaging Assets; or
- (3) a dissolution of the Borrower.

Investors in the ScandiNotes I should note that any postponement of an interest payment will give rise to termination of part of the Hedging Agreement as to which see “Risks Associated with the Hedging Agreement” below.

#### **Write-down of face value of Repackaging Assets, unpaid postponed interest and cancellation of the outstanding principal amounts**

Each Borrower, by a resolution passed at a meeting of its supreme governing body duly convened in accordance with Danish law and such Borrower’s articles of association, may resolve to reduce and cancel part or all of the outstanding principal amount of the loan to it comprising part of the Repackaging Assets and any accrued interest thereon together with and *pari passu* with all of such Borrower’s outstanding supplementary capital, pursuant to Article 22, section 2 of the Danish Banking Act upon the occurrence of the following circumstances: (a) the share/guarantee capital and reserves (equity) of the Borrower have been reduced to or below zero; (b) a general meeting of the supreme governing body of the Borrower has effectively resolved in accordance with Danish law and the Borrower’s articles of association to reduce (by writing down to zero) the value of (i) each of the outstanding shares constituting the share/guarantee capital of the Borrower, (ii) any possible credit instrument pursuant to Article 22, section 1 of the Danish Banking Act and (c) following the resolution referred to in (b) above either (i) the Borrower merges with another financial institution (which itself complies with the solvency requirement of the Danish Banking Act, Article 21, section 1), or (ii) sufficient share/guarantee and/or other capital of the Borrower is subscribed and contributed so as to enable the Borrower, following any such reduction of the outstanding principal amount of the Repackaging Asset and any arrears of interest thereon, to comply with such solvency requirements of the Danish Banking Act. The amount of any reduction shall be subject to prior approval by the Borrower’s elected external auditors and by the Danish FSA and shall at first be effected in respect of any arrears of interest thereon and only when there are no such outstanding arrears of interest the outstanding principal amount of the Repackaging Assets will be reduced. Under the new Act on Financial Business adopted on 4 June 2003 which enters into effect as of 1 January 2004, the option for a bank or savings bank as a condition for write down of the supplementary capital to merge with another financial institution has been abolished and replaced with the requirement that the financial institution ceases its business without loss for general creditors or new capital is contributed enabling it to comply with the capital requirements.

If interest is not paid under the Repackaging Assets or the principal amount outstanding under the Repackaging Assets is reduced or cancelled in part or in whole, the amount of principal repaid to Noteholders may be less than the amount of their original investment in the ScandiNotes I. Accordingly, the ScandiNotes I are not principal-protected.

#### **Exposure to HSH Nordbank**

HSH Nordbank will be the account holding bank and hedging counterparty (the “**Hedging Counterparty**”) to three swap transactions with the Issuer entered into under an ISDA Master Agreement and Schedule entered into between the Issuer and HSH Nordbank in relation to the Series 2003-1 Cell (the “**Hedging Agreement**”). One swap transaction will be calculated by reference to the Class A Notes (the “**Class A Swap**”), one will be calculated by reference to the Class B Notes (the “**Class B Swap**”) and one will be in respect of one of the Borrowers under the Repackaging Assets which has entered into a fixed rate loan agreement under the Repackaging Assets (the “**Fixed Loan Swap**”). Accordingly, there is a counterparty risk exposure to HSH Nordbank. In the event that HSH Nordbank or any other hedging counterparty defaults or breaches the Hedging Agreement, a mismatch in the transaction cash flows may result. Therefore, HSH Nordbank should be evaluated by prospective investors from a credit risk perspective. Further information about HSH Nordbank is provided on page 25 in the section headed “Information Concerning the Hedging Counterparty”.

### **Risks associated with the Hedging Agreement**

The principal amount of the Repackaging Assets is less than the principal amount of the ScandiNotes I. Pursuant to the Hedging Agreement, the Hedging Counterparty shall, in the absence of any defaults or termination of the Hedging Agreement, be obliged to make termination payments to the Issuer on the Interest Payment Date falling in June 2008 in respect of the Class A Swap and the Class B Swap in an aggregate amount equal to DKK 54,129,000.

The termination payments under the Class A Swap and the Class B Swap exceed the principal amount of the Class B Notes. Accordingly, in the event of a default by the Hedging Counterparty the investors in the Class B Notes stand to lose some or all of their investment. If there is a default or a termination of the Hedging Agreement the principal amount of the Repackaging Assets will be less than the outstanding amount of the ScandiNotes I and there can be no guarantee that investors will receive full payment of principal on the ScandiNotes I.

The Hedging Agreement will terminate on the Interest Payment Date falling in June 2008 unless terminated earlier in accordance with its terms. The Hedging Agreement may be terminated in whole, among other circumstances:

- (i) in certain circumstances as more particularly described below, if withholding taxes are imposed on payments by the Issuer or the Hedging Counterparty under the Hedging Agreement; or
- (ii) upon the occurrence of certain other events with respect to either party to the Hedging Agreement, including a breach of representation, insolvency and changes in law resulting in illegality; or
- (iii) if any of the ScandiNotes I became due to be redeemed by the Issuer prior to 7 June 2008,

whereupon the Issuer or the Hedging Counterparty may be liable to make a termination payment to the other regardless of which of the parties caused such termination.

The Hedging Agreement may be terminated in part only, among other circumstances:

- (i) if there is a default or deferral (in either case, whether or not caused by force majeure) by any of the Borrowers of any interest or instalments under the Repackaging Assets when due (after expiry of the applicable grace period) or any Borrower has stated that it intends to defer or repudiate its obligations, for whatever reason, under or in respect of the Repackaging Assets (an "RA Event"); or
- (ii) at the option of one party, if there is a failure by the other party to pay any amounts due, or to comply with or perform any obligation under the Hedging Agreement,

whereupon the Issuer or the Hedging Counterparty may be liable to make a partial termination payment to the other regardless of which of the parties caused such termination. Such termination payment shall be calculated on a mark to market basis and shall be taken into account to reset the amounts of the Class A Swap and the Class B Swap. For further details see "The Hedging Agreement" on page 20 below. However, the Hedging Agreement shall remain in force in such circumstances to the extent that there is no RA Event under the other Repackaging Assets and the cash flows from such other Repackaging Assets will continue to be swapped under the Hedging Agreement in order to make a proportionate payment in respect of the Notes.

If there is a termination of any of the swaps under the Hedging Agreement, there can be no guarantee that investors will receive full payment of principal or interest on the ScandiNotes I.

### **Enforcement of Security**

The Security for the ScandiNotes I, as set out in the Trust Deed, Supplemental Trust Deed and Pledge Agreement (as defined and described below in the section entitled "The Repackaging Assets and Security" on page 20), comprises the Repackaging Assets, the Sale and Purchase Agreement, the amounts standing to the credit of the Issuer's bank accounts held with the account bank, HSH Nordbank, the Account Bank Agreement, the Hedging Agreement and the VP Agency Agreement. In the event of enforcement of the Security, the monies available to the Issuer to make payment to the Noteholders will, inter alia, be dependent on the net proceeds of sale of the Repackaging Assets and will be dependent on paying amounts due to secured creditors ranking ahead of the Noteholders in the Order of Priorities set out on page 23. There can be no assurance as to the market value of any such Repackaging Assets sold, nor can there be any assurance that such Repackaging Assets can be sold at the relevant time and/or as to the net proceeds of sale which may be raised at that time. Accordingly, this may mean that there are insufficient funds available to pay Noteholders. The value of the Repackaging Assets will fluctuate with, amongst other things, changes in general economic conditions, prevailing interest rates, the condition of certain financial markets, international political events and the financial condition of, or the political situation relating to, the Borrowers.

Any action for the enforcement of the Conditions of the ScandiNotes I or the Security therefor may only be taken by the Trustee on behalf of the Noteholders. Noteholders may be bound by resolutions passed by certain majorities at meetings of Noteholders at which they were not present and such resolutions may include modifications of the Conditions of the ScandiNotes I. The Trustee shall not be obliged to pursue any of the remedies available in the Principal Trust Deed unless indemnified to its satisfaction.

#### **Limited Recourse**

On the enforcement of the Security the Trustee will have recourse only to the Security. The Trustee will have no recourse to any other assets of the Issuer and, after realisation of the Security, none of the Trustee, the Paying Agent, the VP Agent nor any Noteholders may take any further steps against the Issuer or any of its assets to recover any sums still unpaid in respect of the Trust Deed or the ScandiNotes I (including any amount in respect of accrued interest), as applicable, and all claims against the Issuer in respect of such sums shall be extinguished.

#### **Prepayment/realisation of assets**

A possible prepayment of the ScandiNotes I will be dependent upon whether the Repackaging Assets will be prepaid. Each of the Borrowers has an option to prepay its loan comprising part of the Repackaging Assets on or after June 2008 at a price of 100% of the loan to such Borrower comprising part of the Repackaging Assets with 30 days' notice in advance and conditional upon the approval of the Danish FSA.

It is the individual Borrower that evaluates whether it should utilise its option to prepay under the Repackaging Assets. This could mean that not all of the Borrowers would prepay on or after June 2008 but any Borrower which does not prepay on such date would be exposed to an increased cost of funds under the relevant loan.

#### **Deferment of principal to after June 2008**

Following June 2008, whereupon the Borrowers have an option to prepay the Repackaging Assets, it is possible that some but not all of the Repackaging Assets will have been redeemed. In the event that this is the case, there is a risk that the interest received on the outstanding Repackaging Assets after deducting expenses ranking ahead of interest on the ScandiNotes I will be less than the minimum interest rate on the ScandiNotes I. In such circumstances, Noteholders will be exposed to the risk of a shortfall in cash flows which will be unhedged and may lose some or all of their remaining investment.

The ScandiNotes I are subject to optional redemption by the Issuer in the event that the aggregate principal amount of the ScandiNotes I outstanding on or after June 2008 amounts to 15% or below of the original aggregate principal amount of the ScandiNotes I at the Issue Date and the interest income which is expected by the Operation Services Provider to be generated by the Repackaging Assets is insufficient to pay all amounts expected by the Operation Services Provider to be due and owing ahead of interest on the ScandiNotes I and to pay a minimum interest rate of 2% on the ScandiNotes I. Such an optional redemption is subject to monies being available to the Issuer to make payment to the Noteholders which is dependent on the Issuer selling the Repackaging Assets and the net proceeds of sale of the Repackaging Assets being sufficient, following payment of all amounts which rank in priority to such payment to Noteholders, to repay principal plus accrued interest on the outstanding ScandiNotes I.

#### **Access to Information**

Noteholders will not have the right to obtain from the Issuer or the Trustee information in relation to any of the Repackaging Assets or information regarding any obligation of any of the Borrowers.

#### **Secondary Market; Liquidity**

There is not, at present, an active and liquid secondary market for the ScandiNotes I, and it is unlikely that an active secondary market for the ScandiNotes I will develop. Even if an active secondary market does develop, it may not continue for the life of the ScandiNotes I or it may leave Noteholders with illiquid investments. This means that a Noteholder may not be able to find a buyer to buy its ScandiNotes I readily or at prices that will enable the Noteholder to realise a desired yield. This can also have an adverse effect on the market value of the ScandiNotes I.

#### **Withholding Taxes**

In the event that withholding taxes are imposed on payments made or to be made under the ScandiNotes I, Noteholders will receive less than the full amount of payments to which they would otherwise have been entitled and will not have any right to require the Issuer to make additional payments in respect of the amount withheld.

## THE DANISH BANKING INDUSTRY

This section sets out some of the characteristics of the Danish banking industry and presents an overview of the current market situation.

### Regulators

Danish banks and saving banks are supervised by the Danish FSA (*Finanstilsynet*), which is an agency of the Danish Ministry of Economic and Business Affairs. The Ministry is generally responsible for financial legislation.

The functions of the Danish FSA are currently supervising the activities of the regulated portion of the Danish financial industry. This is performed by requiring institutions to report on, *inter alia*, accounts, cash resources and large exposures to the Danish FSA and by the Danish FSA performing on-site inspections. The Danish FSA also reviews material matters, including individual cases, arising in individual banks and savings banks and generally has the obligation to monitor compliance by banks and savings banks of the Danish Banking Act.

### Structure of the Industry

At the end of 2001 there were a total of 187 commercial and savings banks in Denmark.

Danish banks have performed well in recent years, asset quality is generally good and industry commentators have observed that banks pursue prudent provisioning policies. The industry is dominated by two players, Danske Bank and Nordea. The two dominant players, however, face competition from smaller regional banks and savings banks. After the two market leaders, Danske Bank and Nordea, are Jyske Bank and Sydbank. Both banks have their respective core operating area in Jutland.

The remaining market share in the retail market is divided between the roughly 180 regional and local banks that are operating in Denmark. Despite their small size, the regional and local banks have, according to market sources, been profitable. They have sought to differentiate themselves from the larger nationwide banks by focusing on a high service level and close relationships with their customers, aiming at achieving high customer loyalty.

A table showing total assets of Danish banks produced by the Danish Bankers' Association is set out below:

| Total assets of Danish Banks (year end 2001) | No. of banks | Total DKK bn |
|--|--------------|--------------|
| Working capital of DKK 25bn and above        | 4            | 1588         |
| Working capital of DKK 3bn and above         | 15           | 215          |
| Working capital of DKK 250m and above        | 77           | 110          |
| Working capital of less than DKK 250m        | 91           | 9            |
| <b>Total</b>                                 | <b>187</b>   | <b>1922</b>  |

(Source: The Danish Bankers' Association)

Extracts from a consolidated balance sheet for the Danish banking sector for 1991 and 2001, as estimated by the Danish FSA, are set out below:

| Banks' balance sheets (DKK bn)                   | Year 1991   | Year 2001   |
|--|-------------|-------------|
| <b>Assets</b>                                    |             |             |
| Loans and advances                               | 508         | 837         |
| Balances due from banks                          | 190         | 342         |
| Bonds  | 208         | 462         |
| Other assets                                     | 104         | 144         |
| <b>Total assets</b>                              | <b>1010</b> | <b>1912</b> |
| <b>Liabilities</b>                               |             |             |
| Deposits   | 503         | 805         |
| Balances due to banks                            | 333         | 564         |
| Other liabilities                                | 81          | 221         |
| Subordinated debt and hybrid capital instruments | 25          | 48          |
| Shareholders' equity                             | 68          | 117         |
| <b>Total liabilities</b>                         | <b>1010</b> | <b>1913</b> |

Note: The above table includes only selected items and does not reflect the complete estimated balance sheet of the sector.

(Source: Danish FSA)

### *Profitability*

According to market sources, industry profitability in 2002 has been adversely affected by the negative trend in the securities markets. However, one of the major factors aiding profitability in recent years is that provisions and write-offs in respect of bad debts have declined since 1995.

Interest margins have continued downwards in Denmark. This downward pressure is the result of increased competition in the market.

When comparing the performance of Danish and foreign banks, it is important to take into consideration the difference in accounting principles. Both realised and unrealised capital gains are included in the financial net profit/loss of Danish banks. Hence, their earnings are sensitive to changes in securities prices, exchange rates and other financial instruments. Furthermore, securities represent a relatively large part of the banks' total balance sheets.

| <b>Earnings of Danish banks<br/>(DKK bn) parent company (not group)</b>       | <b>1991</b>  | <b>1995</b> | <b>2001</b> |
|---|--------------|-------------|-------------|
| Net interest and fees receivable  | 34.4         | 35.6        | 47.5        |
| Securities and foreign exchange result  | 4.6          | 6.3         | 1.9         |
| Staff and administration expenses   | 21.2         | 19.8        | 30.5        |
| Provisions for bad and doubtful debts   | 13.6         | 5.5         | 5.0         |
| Profit from participating interests in subsidiary and associated undertakings | 0.6          | 2.7         | 5.8         |
| Net extraordinary items   | (0.4)        | (2.2)       | (0.6)       |
| Profit before tax   | (0.1)        | 13.0        | 19.4        |
| Tax   | 0.3          | 2.3         | 4.9         |
| <b>Profit for the year after tax</b>  | <b>(0.4)</b> | <b>10.8</b> | <b>14.5</b> |

Note: The above table includes selected items and does not reflect the complete estimated profit and loss account of the sector.

(Source: Danish FSA)

## SELECTED DANISH COMMERCIAL AND SAVINGS BANKS

The Danish commercial and savings banks issuing the subordinated term loan agreements constituting the Repackaging Assets are:

### Amagerbanken

#### Portrait

The bank was founded in 1903 on the island of Amager, south of Copenhagen, and now has 14 branch offices on the island. Furthermore, the bank has 10 branch offices in the Copenhagen area and one branch in each of Odense and Århus. The bank offers a range of traditional banking products and through the bank's subsidiary, AB Finans A/S, the bank offers leasing and other financing. Today Amagerbanken has about 100,000 customers, both private and business. The business customers account for about half of the bank's balance. The bank's shares are listed on the Copenhagen Stock Exchange and the major shareholders are Skandinaviska Enskilda Banken AB and PFA, otherwise the bank's ownership is spread among 28,000 shareholders.

#### Financial Performance

| Key figures: (MDKK)                            | 1998    | 1999    | 2000     | 2001     | 2002     |
|--|---------|---------|----------|----------|----------|
| Loan losses and provisions                     | 56.9    | 49.1    | 70.2     | 121.5    | 327.5    |
| Net result                                     | 71.4    | 74.6    | 121.5    | 117.3    | -39.3    |
| Lending  | 6,382.0 | 7,028.0 | 8,622.0  | 8,655.0  | 7,477.0  |
| Equity   | 728.0   | 779.0   | 867.0    | 956.0    | 918.0    |
| Subordinated capital                           | 200.0   | 230.0   | 230.0    | 380.0    | 380.0    |
| Balance  | 8,845.0 | 9,908.0 | 11,896.0 | 13,258.0 | 12,165.0 |
| Income/cost ratio (I/C)                        | 1.29    | 1.28    | 1.44     | 1.34     | 0.90     |
| Write-offs for the year and provisioning ratio | 0.90    | 0.60    | 0.60     | 1.10     | 3.40     |
| Provisioning ratio                             | 2.20    | 2.30    | 2.20     | 2.20     | 3.20     |
| Core capital percentage                        | 9.60    | 8.40    | 8.20     | 8.60     | 8.50     |
| Solvency percentage                            | 12.00   | 11.00   | 10.40    | 12.00    | 12.50    |

(source: Amagerbanken 2002 Annual Report)

### Amtssparekassen Fyn

#### Portrait

Amtssparekassen Fyn markets itself as a full service financial institution for both private customers and small and medium sized companies. The bank's customers are served by a branch network of 35 branches, which are mostly located on Fuen, Langeland and Ærø. Market share is about 20% in the bank's local community.

Amtssparekassen Fyn has a close co-operation with other regional banks and savings banks relating to clearing and financial market operations. The largest shareholder in the bank is Amtssparekassens Aktiefond, otherwise the bank's ownership is diverse. The bank is listed on the Copenhagen Stock Exchange.

#### Financial Performance

| Key figures: (MDKK)                            | 1998     | 1999     | 2000     | 2001     | 2002     |
|--|----------|----------|----------|----------|----------|
| Loan losses and provisions                     | 43.9     | 55.8     | 66.6     | 79.6     | 82.7     |
| Net result                                     | 50.2     | 62.7     | 104.1    | 97.3     | 77.4     |
| Lending  | 6,756.0  | 7,012.0  | 7,682.0  | 7,915.0  | 8,551.0  |
| Equity   | 912.0    | 939.0    | 942.0    | 994.0    | 1,026.0  |
| Subordinated capital                           | 0.0      | 104.0    | 230.0    | 231.0    | 232.0    |
| Balance  | 14,632.0 | 12,896.0 | 14,915.0 | 15,617.0 | 17,381.0 |
| Income/cost ratio (I/C)                        | 1.19     | 1.23     | 1.36     | 1.33     | 1.24     |
| Write-offs for the year and provisioning ratio | 0.50     | 0.60     | 0.70     | 0.70     | 0.70     |
| Provisioning ratio                             | 5.60     | 5.20     | 4.60     | 4.10     | 3.80     |
| Core capital percentage                        | 10.10    | 9.80     | 9.00     | 9.10     | 8.70     |
| Solvency percentage                            | 10.30    | 11.10    | 11.40    | 11.30    | 10.70    |

(Source: Amtssparekassen Fyn 2002 Annual Report)

## Dronninglund Sparekasse

### Portrait

Dronninglund Sparekasse's history dates back to 1873. The bank's main operating area is the northern part of Jutland. Apart from the headquarters in Dronninglund, the bank has 8 branches and 68 employees. The bank is a self-owning institution.

### Financial Performance

| Key figures: (MDKK)                            | 1998  | 1999  | 2000  | 2001  | 2002  |
|--|-------|-------|-------|-------|-------|
| Loan losses and provisions                     | 1.8   | -1.0  | 1.8   | 5.0   | 0.5   |
| Net result                                     | 1.2   | 1.7   | 4.3   | 7.0   | 3.5   |
| Lending  | 317.1 | 341.1 | 403.9 | 536.2 | 635.7 |
| Equity   | 67.0  | 69.3  | 79.7  | 100.2 | 146.1 |
| Subordinated capital                           | 30.0  | 30.0  | 30.0  | 30.0  | 30.0  |
| Balance  | 586.2 | 606.9 | 672.6 | 798.6 | 859.0 |
| Income/cost ratio (I/C)                        | 1.08  | 1.10  | 1.23  | 1.29  | 1.13  |
| Write-offs for the year and provisioning ratio | 0.40  | -0.20 | 0.30  | 0.60  | 0.10  |
| Provisioning ratio                             | 4.50  | 3.40  | 3.20  | 2.70  | 2.4   |
| Core capital percentage                        | 12.90 | 12.70 | 11.50 | 11.40 | 15.2  |
| Solvency percentage                            | 18.80 | 18.40 | 16.20 | 15.5  | 19.0  |

(Source: Dronninglund Sparekasse 2002 Annual Report)

## Hadsten Bank

### Portrait

Hadsten Bank was established in 1908. The bank offers a range of traditional banking products. The bank has been in co-operation with similar banks, enabling them to offer a wider range of products. The bank's main operating area is the local community of Hadsten, which is in the north eastern part of Jutland. Ownership of the bank is widespread, with both management and employees holding shares in the bank. The bank is listed on the Copenhagen Stock Exchange.

### Financial Performance

| Key figures: (MDKK)                            | 1998  | 1999  | 2000  | 2001  | 2002  |
|--|-------|-------|-------|-------|-------|
| Loan losses and provisions                     | 4.1   | 2.3   | 4.0   | 4.6   | 3.9   |
| Net result                                     | 6.7   | 7.3   | 9.6   | 8.3   | 8.7   |
| Lending  | 349.9 | 374.0 | 451.8 | 469.4 | 467.1 |
| Equity   | 75.7  | 80.7  | 87.8  | 93.7  | 114.5 |
| Subordinated capital                           | 18.2  | 18.5  | 18.8  | 19.0  | 19.3  |
| Balance  | 543.5 | 598.3 | 661.3 | 697.1 | 797.5 |
| Income/cost ratio (I/C)                        | 1.35  | 1.26  | 1.39  | 1.35  | 1.36  |
| Write-offs for the year and provisioning ratio | 0.60  | 0.30  | 0.40  | 0.40  | 0.40  |
| Provisioning ratio                             | 2.60  | 2.10  | 2.20  | 2.30  | 2.60  |
| Core capital percentage                        | 11.30 | 11.10 | 10.80 | 10.10 | 10.50 |
| Solvency percentage                            | 13.80 | 13.30 | 12.50 | 11.80 | 11.30 |

(Source: Hadsten Bank 2002 Annual Report)

## Skjern Bank

### Portrait

Skjern Bank was founded in 1906. Skjern Bank has about 105 employees working in 7 branch offices. The bank's prime operating area is the south-western part of Jutland and headquarters are in the town of Skjern.

Ownership of the bank is diverse and most of the bank's shareholders are customers of the bank, being individuals from the local community. The bank is listed on the Copenhagen Stock Exchange.

### Financial Performance

| Key figures: (MDKK)                                   | 1998    | 1999    | 2000    | 2001    | 2002    |
|---|---------|---------|---------|---------|---------|
| <b>Loan losses and provisions</b>                     | 7.0     | 7.2     | 10.7    | 11.7    | 15.2    |
| <b>Net result</b>                                     | 13.0    | 11.6    | 19.2    | 18.5    | 21.4    |
| <b>Lending</b>  | 794.5   | 843.4   | 1,028.6 | 1,156.6 | 1,347.7 |
| <b>Equity</b>   | 153.2   | 162.2   | 177.8   | 192.7   | 224.5   |
| <b>Subordinated capital</b>                           | 15.0    | 0.0     | 50.0    | 50.0    | 50.0    |
| <b>Balance</b>  | 1,278.5 | 1,268.0 | 1,418.8 | 1,663.3 | 1,852.8 |
| <b>Income/cost ratio (I/C)</b>                        | 1.33    | 1.27    | 1.43    | 1.37    | 1.39    |
| <b>Write-offs for the year and provisioning ratio</b> | 0.50    | 0.50    | 0.60    | 0.60    | 0.70    |
| <b>Provisioning ratio</b>                             | 3.90    | 3.70    | 3.20    | 3.10    | 3.30    |
| <b>Core capital percentage</b>                        | 12.90   | 12.40   | 11.10   | 10.60   | 10.70   |
| <b>Solvency percentage</b>                            | 13.40   | 11.80   | 14.10   | 13.30   | 13.20   |

(Source: Skjern Bank 2002 Annual Report)

## Sparekassen Sjælland

### Portrait

Sparekassen Sjælland is one of the oldest financial institutions in Denmark. The bank's history dates back to 1825. The bank's main geographical focus is on the middle and western part of Zealand. The bank currently employs 187 people in 17 branches, with headquarters in Holbæk. The bank's prime strategy is to provide their customers with a high level of personal service, thus aiming to differentiate themselves from the larger market players. The bank is not publicly owned nor is it listed on any stock exchange. The bank is an independent self-owning institution.

### Financial Performance

| Key figures: (MDKK)                                   | 1998    | 1999    | 2000    | 2001    | 2002    |
|---|---------|---------|---------|---------|---------|
| <b>Loan losses and provisions</b>                     | 11.6    | 14.9    | 18.5    | 20.7    | 23.7    |
| <b>Net result</b>                                     | 28.3    | 25.7    | 51.6    | 55.6    | 54.1    |
| <b>Lending</b>  | 1,783.0 | 1,880.7 | 1,997.7 | 2,268.5 | 2,487.1 |
| <b>Equity</b>   | 408.5   | 442.8   | 497.2   | 581.7   | 665.6   |
| <b>Subordinated capital</b>                           | 125.0   | 175.0   | 125.0   | 175.0   | 175.0   |
| <b>Balance</b>  | 2,918.8 | 3,194.9 | 3,159.4 | 3,786.5 | 4,077.5 |
| <b>Income/cost ratio (I/C)</b>                        | 1.33    | 1.28    | 1.59    | 1.55    | 1.46    |
| <b>Write-offs for the year and provisioning ratio</b> | 0.50    | 0.40    | 0.50    | 0.50    | 0.50    |
| <b>Provisioning ratio</b>                             | 4.80    | 4.20    | 4.30    | 3.90    | 3.90    |
| <b>Core capital percentage</b>                        | 16.10   | 15.40   | 15.60   | 15.20   | 16.50   |
| <b>Solvency percentage</b>                            | 19.10   | 19.50   | 19.40   | 19.00   | 20.20   |

(Source: Sparekassen Sjælland 2002 Annual Report)

## Spar Nord

### Portrait

Spar Nord Bank was established in 1824. Currently the bank is the sixth largest financial institution in Denmark. The bank's core operating area is in the northern part of Jutland, with headquarters in Aalborg. The bank operates 65 branch offices, mainly within its main operating area, but also in Århus and Copenhagen. The bank offers a range of traditional commercial banking products, furthermore, through co-operation with partner institutions, Spar Nord Bank offers products such as mortgage bonds and pension schemes. Spar Nord Bank is listed on the Copenhagen Stock Exchange and ownership is diverse.

### Financial Performance

| Key figures: (MDKK)                                   | 1998     | 1999     | 2000     | 2001     | 2002     |
|---|----------|----------|----------|----------|----------|
| <b>Loan losses and provisions</b>                     | 215.0    | 131.6    | 211.0    | 347.3    | 307.4    |
| <b>Net result</b>                                     | 142.2    | 167.9    | 257.3    | 58.2     | 121.4    |
| <b>Lending</b>  | 13,573.5 | 14,506.2 | 16,783.1 | 16,460.0 | 16,847.7 |
| <b>Equity</b>   | 1,573.0  | 1,630.5  | 1,690.0  | 1,692.2  | 1,765.7  |
| <b>Subordinated capital</b>                           | 319.3    | 667.7    | 669.5    | 964.0    | 980.5    |
| <b>Balance</b>  | 24,076.1 | 26,653.6 | 28,503.0 | 28,989.6 | 31,790.3 |
| <b>Income/cost ratio (I/C)</b>                        | 1.15     | 1.27     | 1.37     | 1.05     | 1.13     |
| <b>Write-offs for the year and provisioning ratio</b> | 1.30     | 0.70     | 1.10     | 1.70     | 1.70     |
| <b>Provisioning ratio</b>                             | 4.50     | 4.40     | 3.40     | 4.40     | 4.50     |
| <b>Core capital percentage</b>                        | 9.10     | 8.80     | 7.60     | 7.50     | 7.30     |
| <b>Solvency percentage</b>                            | 9.30     | 10.90    | 9.40     | 10.50    | 10.20    |

(Source: Spar Nord Bank 2002 Annual Report)

## VestFyns Bank

### Portrait

VestFyns Bank is a local bank with roots dating back to 1896. The bank offers a range of traditional commercial banking products. Apart from the bank's headquarters in Assens, the bank has five branches. The bank's strategy is to offer a high service level and expertise to their customers, thus to be in close contact with the local business community. The bank's ownership is diverse and the bank is listed on the Copenhagen Stock Exchange.

### Financial Performance

| Key figures: (MDKK)                                   | 1998  | 1999  | 2000  | 2001    | 2002    |
|---|-------|-------|-------|---------|---------|
| <b>Loan losses and provisions</b>                     | 8.7   | 11.8  | 10.5  | 11.6    | 10.4    |
| <b>Net result</b>                                     | 6.1   | 7.3   | 10.3  | 8.5     | 7.7     |
| <b>Lending</b>  | 499.8 | 534.6 | 604.5 | 618.3   | 712.7   |
| <b>Equity</b>   | 85.3  | 90.6  | 97.9  | 110.3   | 117.3   |
| <b>Subordinated capital</b>                           | 15.0  | 21.5  | 22.1  | 22.5    | 23.0    |
| <b>Balance</b>  | 836.1 | 871.9 | 861.9 | 1,029.3 | 1,213.6 |
| <b>Income/cost ratio (I/C)</b>                        | 1.19  | 1.22  | 1.31  | 1.21    | 1.20    |
| <b>Write-offs for the year and provisioning ratio</b> | 1.20  | 1.30  | 1.00  | 1.00    | 0.90    |
| <b>Provisioning ratio</b>                             | 4.10  | 3.70  | 3.50  | 3.70    | 3.70    |
| <b>Core capital percentage</b>                        | 12.70 | 11.60 | 11.30 | 10.70   | 10.30   |
| <b>Solvency percentage</b>                            | 14.40 | 14.00 | 13.90 | 13.50   | 12.60   |

(Source: VestFyns Bank 2002 Annual Report)

The numbers of branches and employees for each of the above Danish commercial and savings banks are taken from the Annual Reports referenced above and are the figures as at the dates referred to in those Annual Reports.

## THE REPACKAGING ASSETS AND SECURITY

### 1. Loan Agreements

The subordinated term loan agreements constituting the Repackaging Assets have been entered into on similar terms, save as to interest rates, by a number of Danish commercial and savings banks, as borrowers, and HSH Nordbank, as lender (the “**Lender**”). All loans were advanced on 6 June 2003 and will be sold and assigned to the Issuer pursuant to the Sale and Purchase Agreement on the Issue Date.

The principal terms of the Repackaging Assets are that the loans have a maturity date of 6 June 2011. The Borrowers have no right to prepay the Repackaging Assets prior to June 2008. The Borrowers can, however, following approval from the Danish FSA prepay semi-annually at par by giving 30 calendar days’ notice, ending on an Interest Payment Date falling in or after June 2008.

Each loan agreement has two annual interest payment dates in each year (on 6 June and 6 December subject to modification in accordance with a modified following business day convention).

The Repackaging Assets constitute subordinated debt in respect of the Danish Banking Act, article 22(2) and the executive order of the Danish FSA no. 861 of 21 October 2002 on subordinated capital. Accordingly, the Repackaging Assets are treated as subordinated debt, which is subordinated to all other non-subordinated debt of the relevant Borrower. Additionally, a series of special terms prevail for subordinated debt as prescribed by the Danish Banking Act, article 22(2) and the executive order of the Danish FSA no. 861 of 21 October 2002 on subordinated capital, including that the Borrowers have the right to postpone interest payments on the Repackaging Assets if the Borrower does not meet its solvency requirements.

The following table sets out details of the Borrowers and their respective borrowings:

| Borrower                | CVR no.  | Nominal amount,<br>DKK million | Percentage of<br>total borrowing |
|-------------------------|----------|--------------------------------|----------------------------------|
| Amagerbanken            | 15773928 | 75                             | 19.7%                            |
| Amtsparekassen Fyn      | 14669000 | 50                             | 13.2%                            |
| Dronninglund Sparekasse | 58943010 | 30                             | 7.9%                             |
| HadstenBank             | 37729116 | 25                             | 6.6%                             |
| Skjern Bank             | 45801012 | 25                             | 6.6%                             |
| Sparekassen Sjælland    | 29157812 | 50                             | 13.2%                            |
| Spar Nord               | 13737584 | 100                            | 26.3%                            |
| VestFyns Bank           | 37075515 | 25                             | 6.6%                             |
| <b>Total</b>            |          | <b>380</b>                     | <b>100.00%</b>                   |

A front end fee was payable by the relevant Borrower to the original Lender to cover expenses associated with the execution of and servicing of the facility. This will not be assigned to the Issuer pursuant to the Sale and Purchase Agreement.

The Borrowers do not pledge any assets as security for the Repackaging Assets. The Lender may declare the Repackaging Assets to be cancelled and/or immediately due and repayable in the event that the relevant Borrower enters into liquidation or is declared bankrupt.

The Repackaging Assets are governed by Danish law.

### 2. The Pledged Accounts

The Issuer has opened a DKK account with the account bank, HSH Nordbank (the “**2003-1 Cash Account**”). The 2003-1 Cash Account will be used to make payments to Noteholders and its details will be notified to VP.

The Issuer has also opened a new DKK account with HSH Nordbank (the “**2003-1 Deposit Account**”) which will, together with the 2003-1 Cash Account (the “**Pledged Accounts**”), pursuant to the Pledge Agreement, form part of the security for the Notes. Borrowers under the Repackaging Assets have been notified to make payments of principal and interest to the Issuer directly to the 2003-1 Deposit Account and will be held there for the period between receipt and the corresponding payment date for the Notes.

### 3. The Hedging Agreement

On or prior to the Issue Date, the Issuer will enter into three swap transactions with HSH Nordbank, as the Hedging Counterparty, pursuant to the Hedging Agreement which will be used to swap the payments made in respect of the Repackaging Assets for amounts corresponding to the payments to be made under the

Notes. One swap transaction will be calculated by reference to the Class A Notes, one will be calculated by reference to the Class B Notes and one will be entered into in respect of one of the Borrowers under the Repackaging Assets which has entered into a fixed rate loan agreement under the Repackaging Assets, all of which constitute obligations in relation to the Series 2003-1 Cell. The following description is a summary only of certain provisions of the transactions under the Hedging Agreement.

*Fixed Loan Swap*

The Fixed Loan Swap has been entered into to swap the interest payable by one of the Borrowers under the Repackaging Assets to the Issuer into a floating rate which the Issuer can apply together with the interest payable by the other Borrowers under the Repackaging Assets in making the payments due under the Class A Swap and the Class B Swap.

*Class A Swap*

The Class A Swap has been entered into to swap a portion of the interest payable by Borrowers under the Repackaging Assets (such amount to be determined following the swap described above in the Fixed Loan Swap) (the "**Class A Floating Amount**") into an amount equal to the fixed rate payable on the Class A Notes and a final principal amount payable to the Issuer on the Interest Payment Date falling in June 2008 to be applied by the Issuer together with principal payments on the Repackaging Assets, if any, to make a principal repayment on the ScandiNotes I on such payment date. The Class A Floating Amount will be determined based on a notional principal amount of DKK 342,000,000.

*Class B Swap*

The Class B Swap has been entered into to swap a portion of the interest payable by Borrowers under the Repackaging Assets (such amount to be determined following the swap described above in the Fixed Loan Swap) (the "**Class B Floating Amount**") into an amount equal to the fixed rate payable on the Class B Notes and a final principal amount payable to the Issuer on the Interest Payment Date falling in June 2008 to be applied by the Issuer together with principal payments on the Repackaging Assets, if any, to make a principal repayment on the ScandiNotes I on such payment date. The Class B Floating Amount will be determined based on a notional principal amount of DKK 38,000,000.

*Termination*

The Hedging Agreement will terminate on the Interest Payment Date falling in June 2008 unless terminated earlier in accordance with its terms. The Hedging Agreement may be terminated in whole, among other circumstances:

- (i) in certain circumstances as more particularly described below, if withholding taxes are imposed on payments by the Issuer or the Hedging Counterparty under the Hedging Agreement; or
- (ii) upon the occurrence of certain other events with respect to either party to the Hedging Agreement, including a breach of representation, insolvency and changes in law resulting in illegality; or
- (iii) if any of the ScandiNotes I became due to be redeemed by the Issuer prior to June 2008,

whereupon the Issuer or the Hedging Counterparty may be liable to make a termination payment to the other regardless of which of the parties caused such termination.

The Hedging Agreement may be terminated in part only, among other circumstances:

- (x) if there is a default or deferral (in either case, whether or not caused by force majeure) by any of the Borrowers of any interest or instalments under the Repackaging Assets when due (after expiry of any applicable grace periods) or any Borrower has stated that it intends to defer or repudiate its obligations, for whatever reason, under or in respect of the Repackaging Assets (an "**RA Event**"); or
- (y) at the option of one party, if there is a failure by the other party to pay any amounts due, or to comply with or perform any obligation under the Hedging Agreement,

whereupon the Issuer or the Hedging Counterparty may be liable to make a partial termination payment to the other regardless of which of the parties caused such termination. Such termination payment shall be calculated on a mark to market basis and shall be taken into account to reset the amounts of the Class A Swap and the Class B Swap in the manner described in the paragraph below. However, the Hedging Agreement shall remain in force in such circumstances to the extent that there is no RA Event under the other Repackaging Assets and the cash flows from such other Repackaging Assets will continue to be swapped under the Hedging Agreement in order to make a proportionate payment in respect of the ScandiNotes I.

If there is a partial termination under the Hedging Agreement, the swaps under the Hedging Agreement will be reset. If the partial termination arises as a result of an RA Event, the Class B Swap and, to the extent necessary the Class A Swap, shall be reset to give effect to the loss of the cash flow from the relevant

Repackaging Asset. Such resetting shall take account of any mark to market termination payment which would otherwise be payable to or from the Issuer in the revised swap cash flows at the prevailing swap rates available at the time to give rise to a revised notional principal amount and final payment amount for the fixed leg of the Class B Swap and, to the extent necessary, the Class A Swap.

If the partial termination arises as a result of an RA Event relating to the Repackaging Assets paying a fixed rate, the Fixed Loan Swap shall also be terminated giving rise to a mark to market termination payment to or from the Issuer. Any such termination payment will also be included in resetting the Class B Swap and, to the extent necessary, the Class A Swap in the manner described above. Such resetting will be carried out, so far as possible, to secure the principal and interest on the Class A Notes without regard to the Class B Notes, and all termination payments payable to the Issuer shall be utilised in resetting the swap unless the Issuer can demonstrate to the satisfaction of the Trustee that there is an alternative which produces a result which is better for the holders of the Class A Notes.

Any such full or partial termination of the Hedging Agreement may mean that the amounts of principal and interest which will be paid to investors may be less than the full amounts accruing.

#### 4. The Security

The security for the ScandiNotes I shall comprise the rights of the Issuer under the following:

- (i) the Sale and Purchase Agreement;
- (ii) the Repackaging Assets;
- (iii) the Account Bank Agreement;
- (iv) the Hedging Agreement;
- (v) the VP Agency Agreement; and
- (vi) the Pledged Accounts,

and includes:

- (x) amounts standing to the credit of the Pledged Accounts;
- (y) payments of principal and interest arising on the Repackaging Assets; and
- (z) payments made by the Hedging Counterparty pursuant to the transactions under the Hedging Agreement,

(the “**Charged Assets**”) which will be secured in accordance with the Supplemental Trust Deed and the Pledge Agreement as described below. To the extent that any investments are made in accordance with Special Condition E, security arrangements will be required to be put in place in favour of the Secured Creditors (as defined below) to the satisfaction of the Trustee and such investments will constitute Charged Assets.

#### Supplemental Trust Deed

The obligations of the Issuer under the ScandiNotes I and the Hedging Agreement will be secured pursuant to the Supplemental Trust Deed (the “**Supplemental Trust Deed**”) supplemental to the Principal Trust Deed dated on or about 4 July 2003 (together the “**Trust Deed**”) between the Issuer, the Trustee, Gudme Raaschou Bankaktieselskab acting as the Investment Adviser and HSH Nordbank acting as the Account Bank, Operation Services Provider, the Hedging Counterparty, the Seller and the Principal Paying Agent and VP Agent. The Security will be created in favour of the Trustee for the benefit of itself, the Noteholders, the Hedging Counterparty, the Principal Paying Agent and VP Agent, the Operation Services Provider and the Investment Adviser. The Supplemental Trust Deed contains details of the order of priority in which proceeds of the Charged Assets will be applied which will be in accordance with the order of priorities below.

#### The Pledge Agreement

The security for the ScandiNotes I is, in addition to the Supplemental Trust Deed, constituted by a pledge agreement (the “**Pledge Agreement**”) which the Issuer, as Pledgor, will execute on or prior to the Issue Date in favour of the Trustee, the Noteholders (collectively represented by the Trustee), Gudme Raaschou Bankaktieselskab in its capacity as Investment Adviser and HSH Nordbank, in its capacity as Operation Services Provider, Principal Paying Agent, VP Agent and the Hedging Counterparty (together the “**Secured Creditors**”). The Pledge Agreement shall constitute a Supplementary Security Document for the purposes of the Conditions.

Pursuant to the terms of the Pledge Agreement, the Pledgor pledges to the Secured Creditors various assets, including but not limited to the Repackaging Assets, the Sale and Purchase Agreement, the

amounts standing to the credit of the Pledged Accounts, the Account Bank Agreement, the Hedging Agreement and the VP Agency Agreement (the “**Pledged Assets**”).

The enforceability of the Pledge Agreement by the Secured Creditors is subject to the completion of certain perfection requirements and subject to section 538(a)(2) of the Danish Administration of Justice Act, Consolidation Act no. 777 of 16 September 2002 as amended, pursuant to which the pledgee must give one week’s prior notice of enforcement unless an immediate sale (or other enforcement) is necessary to avoid or limit loss. In the event of various events of default, subject to the above, the Trustee may declare the Pledge Agreement immediately enforceable and may take steps to enforce the pledge without any prior legal proceedings or judgment. Upon the Trustee declaring the Pledge Agreement enforceable, the Trustee may exercise any rights of the Pledgor in respect of the Pledged Assets, sell or otherwise dispose of the Repackaging Assets, demand that the money standing to the credit of the Pledged Accounts be paid to the Trustee’s order or exercise any rights of the Pledgor under the Hedging Agreement.

The Pledge Agreement is governed by Danish law.

#### **Order of Priorities**

The pre-enforcement order of priorities for application of the proceeds arising in relation to the Charged Assets shall be as follows:

- (a) **first**, the Trustee’s fees and expenses in relation to the Series 2003-1 Cell;
- (b) **second**, pari passu with each other, the Principal Paying Agent and VP Agent’s fees and expenses in relation to the Series 2003-1 Cell;
- (c) **third**, pari passu with each other, the Series 2003-1 Cell’s share of the Issuer’s administrative expenses not attributable to a particular Cell, including fees of Harbour Trust Limited subject to a cap of DKK 300,000, auditor’s fees, statutory filing fees in Guernsey and other fees required to maintain the Issuer’s existence and tax status, all as allocated to the Cells of the Issuer in existence in respect of which Notes are still in issue and in respect of which security has not been enforced at the time of payment;
- (d) **fourth**, pari passu with each other, the Operation Service Provider’s fees and the Investment Adviser’s fees in relation to the Series 2003-1 Cell;
- (e) **fifth**, the following amounts in order:
  - (i) to the extent they are received from the fixed rate Borrower under the Repackaging Assets, any amounts due and payable to the Hedging Counterparty in relation to the Fixed Loan Swap in respect of scheduled payments, then;
  - (ii) any amounts due and payable to the Hedging Counterparty in relation to the Class A Swap in respect of scheduled payments, then;
  - (iii) any amounts due and payable to the Hedging Counterparty in relation to the Class B Swap in respect of scheduled payments;
- (f) **sixth**, the following amounts in order:
  - (i) any other amounts due and payable to the Hedging Counterparty in relation to the Fixed Loan Swap, then;
  - (ii) any other amounts due and payable to the Hedging Counterparty in relation to the Class A Swap, then;
  - (iii) any other amounts due and payable to the Hedging Counterparty in relation to the Class B Swap;
- (g) **seventh**, interest due on the Class A Notes;
- (h) **eighth**, principal due on the Class A Notes;
- (i) **ninth**, interest due on the Class B Notes;
- (j) **tenth**, principal due on the Class B Notes; and
- (k) **eleventh**, the surplus, if any, after all ScandiNotes I have been redeemed in full to be retained by the Issuer.

The post-enforcement order of priorities for application of the proceeds of enforcement in relation to the Charged Assets shall be applied as follows:

- (a) **first**, the Trustee’s fees and expenses in relation to the Series 2003-1 Cell;
- (b) **second**, pari passu with each other, the Principal Paying Agent and VP Agent’s fees and expenses in relation to the Series 2003-1 Cell;

- (c) **third**, pari passu with each other, the Operation Service Provider's fees and the Investment Adviser's fees in relation to the Series 2003-1 Cell;
- (d) **fourth**, the following amounts in order:
  - (i) to the extent they are received from the fixed rate Borrower under the Repackaging Assets, any amounts due and payable to the Hedging Counterparty in relation to the Fixed Loan Swap in respect of scheduled payments, then;
  - (ii) any amounts due and payable to the Hedging Counterparty in relation to the Class A Swap in respect of scheduled payments, then;
  - (iii) any amounts due and payable to the Hedging Counterparty in relation to the Class B Swap in respect of scheduled payments;
- (d) **fifth**, the following amounts in order:
  - (i) any other amounts due and payable to the Hedging Counterparty in relation to the Fixed Loan Swap, then;
  - (ii) any other amounts due and payable to the Hedging Counterparty in relation to the Class A Swap, then;
  - (iii) any other amounts due and payable to the Hedging Counterparty in relation to the Class B Swap;
- (e) **sixth**, interest due on the Class A Notes;
- (f) **seventh**, principal due on the Class A Notes;
- (g) **eighth**, interest due on the Class B Notes;
- (h) **ninth**, principal due on the Class B Notes; and
- (i) **tenth**, the surplus, if any, after all ScandiNotes I have been redeemed in full to be retained by the Issuer.

## INFORMATION CONCERNING THE HEDGING COUNTERPARTY

The following information relating to the business and finances of HSH Nordbank as Hedging Counterparty is based on the documents supplied by it. The Hedging Counterparty accepts responsibility for this information. The Issuer's responsibility for such information is limited to the correctness of its extraction.

The Hedging Counterparty is HSH Nordbank. HSH Nordbank will be the account holding bank and the Hedging Counterparty in relation to the Notes. Accordingly, investors in the Notes will have a counterparty risk exposure to HSH Nordbank.

### Business of HSH Nordbank

HSH Nordbank AG was formed on 2 June 2003 by a merger of Landesbank Schleswig-Holstein (LB Kiel) and Hamburgische Landesbank. The decision to merge the two banks was announced on 9 September 2002 and the state contract between the Free and Hanseatic City of Hamburg and the State of Schleswig-Holstein to merge the two banks into a single public limited company (an "Aktiengesellschaft") was signed on 4 February 2003.

The owners of the post-merger bank are as follows:

|   |        |
|---|--------|
| The Free and Hanseatic City of Hamburg          | 35.38% |
| WestLB AG                                       | 26.86% |
| State of Schleswig-Holstein                     | 19.55% |
| Savings Banks Association of Schleswig-Holstein | 18.21% |

### Guarantee

The maintenance obligation (*Anstaltslast*) and the guarantee obligation (*Gewährträgerhaftung*) provided by the political shareholders will be maintained subject to the agreement reached with the EU Commission on 17 July 2001 (the "**Brussels Agreement**"). The regulations regarding the maintenance and guarantee obligations as laid down in the Brussels Agreement and the respective transitional provisions will also apply to the new bank. This is not affected by the fact that HSH Nordbank is a public limited company. The states of Schleswig-Holstein and Hamburg will establish, pursuant to an inter-state agreement, that the guarantee obligation will continue to apply to the new bank to the extent set out in the Brussels Agreement. Thus, there will be no difference between the situation of the new private bank and that of the former public bank. The agreement reached with the EU means that the guarantee obligation will apply to all liabilities that existed on 18 July 2001, irrespective of their term, and thus is not limited in time. Liabilities originating between 18 July 2001 and 18 July 2005 are covered by the guarantee obligation if their term does not extend beyond 31 December 2015. Until 18 July 2005, the guarantors of Landesbank Schleswig-Holstein and Hamburgische Landesbank will also guarantee that the merged bank will be able to meet its obligations.

### Rating

As at the date of this Supplemental Information Memorandum, HSH Nordbank has the following ratings: short-term P-1 and long-term Aa1 (with negative outlook) from Moody's, short-term A-1+ and long-term AA- (with negative outlook) from Standard & Poor's and short-term F1+ and long-term AAA from Fitch.

A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, revision or withdrawal at any time by the assigning rating organisation. A suspension, reduction or withdrawal of the rating assigned to any securities may adversely affect the market price of such securities.

### Regulation and financial holdings

HSH Nordbank is regulated by the German Federal Financial Supervisory Agency and the Deutsche Bundesbank.

The major equity holdings of HSH Nordbank include Landesbank Schleswig-Holstein International S.A. (Luxembourg), LB Schleswig-Holstein Finance B.V., Amsterdam, Gudme Raaschou Bankaktieselskab, Copenhagen, LB Kiel Nord Capital GmbH, Kiel, Schleswig-Holstein Casinos, Kiel, Hamburgische Landesbank (Guernsey) Ltd., Guernsey, Hamburgische LB Finance (Guernsey) Ltd., Guernsey, METONO GmbH, Hamburg and PLUS BANK AG, Hamburg.

## Financial Information

The following financial information is pro forma unaudited information prepared by HSH Nordbank to illustrate what the merged balance sheet of the HSH Nordbank would have been as at 1 January 2003.

### Financials Bank

#### Opening Balance Sheet as at 1 January 2003<sup>1</sup>

|   | EUR mn            |
|---|-------------------|
| <b>Cash reserve</b>                         | <b>344.13</b>     |
| Loans and advances to banks                 | 46,498.72         |
| Loans and advances to customers             | 77,871.79         |
| Bonds and other fixed-income securities     | 45,977.87         |
| Shares and other non-fixed income           | 2,421.41          |
| Other assets                                | 3,738.98          |
| <b>Total assets</b>                         | <b>176,852.90</b> |
| Liabilities to banks                        | 61,144.46         |
| Liabilities to customers                    | 44,950.50         |
| Certificated liabilities                    | 57,344.72         |
| Subordinated debt                           | 2,952.68          |
| Other liabilities                           | 4,690.62          |
| Equity capital                              | 5,769.91          |
| <b>Total liabilities</b>                    | <b>176,852.90</b> |
| <b>Total liable capital</b>                 | <b>10,336</b>     |
| <b>Total capital ratio (Solvency ratio)</b> | <b>10.7%</b>      |
| <b>Tier 1 ratio (Core capital ratio)</b>    | <b>6.2%</b>       |

<sup>1</sup> Selected items/Merger effective 1 January 2003 retroactively from accounting and tax perspectives.

#### Consolidated Opening Balance Sheet as at 1 January 2003<sup>(2)</sup>

| Financials Group <sup>(1)</sup>             | EUR mn <sup>(3)</sup> |
|---|-----------------------|
| <b>Cash reserve</b>                         | <b>358</b>            |
| Loans and advances to banks                 | 46,097                |
| Loans and advances to customers             | 78,876                |
| Bonds and other fixed-income securities     | 50,482                |
| Shares and other non-fixed income sec.      | 2,444                 |
| Other assets <sup>(4)</sup>                 | 3,335                 |
| <b>Total assets</b>                         | <b>181,592</b>        |
| Liabilities to banks                        | 55,374                |
| Liabilities to customers                    | 45,394                |
| Certificated liabilities                    | 67,267                |
| Subordinated debt                           | 3,027                 |
| Other liabilities <sup>(5)</sup>            | 4,752                 |
| Equity capital                              | 5,778                 |
| <b>Total liabilities</b>                    | <b>181,592</b>        |
| <b>Total liable capital</b>                 | <b>10,342</b>         |
| <b>Total capital ratio (Solvency ratio)</b> | <b>10.1 %</b>         |
| <b>Tier 1 ratio (Core capital ratio)</b>    | <b>5.8 %</b>          |

(1) Totals for the HSH Nordbank group, including HSH Nordbank AG, Landesbank Schleswig-Holstein International S.A., Luxembourg, LB Schleswig-Holstein Finance B.V., Amsterdam, Gudme Raaschou Bankaktieselskab, Copenhagen, LB Kiel Nord Capital GmbH, Kiel, Schleswig-Holstein Casinos, Kiel, Hamburgische Landesbank (Guernsey) Ltd., Guernsey, Hamburgische LB Finance (Guernsey) Ltd., Guernsey, METONO GmbH, Hamburg and PLUS BANK AG, Hamburg.

(2) Selected items / Merger effective 1 January 2003 retroactively from accounting and tax perspectives.

(3) Columns may not add up due to roundings.

(4) Includes mainly equity investments, trust assets, other assets and prepaid expenses.

(5) Includes mainly trust liabilities, other liabilities, deferred income, provisions and capital with profit-sharing rights.

### Pre-merger entities - financial information

The following financial information is taken from the pre-merger published accounts of LB Kiel and Hamburgische Landesbank:

#### LB Kiel

LB Kiel was established in 1917 and, prior to the merger, it had total assets of approximately €143 billion. Prior to the merger, LB Kiel was among the leading 15 banks in Germany by total assets and had a focus on northern Germany and the Baltic Sea region. LB Kiel acted as the central clearing institution for the savings banks in the State of Schleswig-Holstein and was a state and municipal bank supporting the State of Schleswig-Holstein and its municipalities.

#### Income Statement

|  | 31/12/2002 | 31/12/2001 | Changes 2002/2001 |           |
|--|------------|------------|-------------------|-----------|
|  | € million  | € million  | € million         | %         |
| Net interest income  | 712        | 504        | 208               | 41        |
| Net commission income  | 101        | 85         | 16                | 19        |
| Net income from trading  | 63         | 48         | 15                | 30        |
| <b>Total net interest, commission and trading income</b>                   | <b>875</b> | <b>636</b> | <b>239</b>        | <b>38</b> |
| General administrative expenses  | -351       | -294       | 57                | 20        |
| Other operating expenses / income  | 5          | 57         | -52               | -92       |
| <b>Operating profit before risk provisions, taxes and profit transfers</b> | <b>529</b> | <b>400</b> | <b>129</b>        | <b>32</b> |
| Risk provisions/evaluations thereof:                                       | -201       | -178       | -23               | 13        |
| <b>Operating profit before taxes and profit transfers</b>                  | <b>328</b> | <b>222</b> | <b>106</b>        | <b>47</b> |

| Key figures           | 31/12/2002 | 31/12/2001 |
|-----------------------|------------|------------|
| Cost:Income Ratio (%) | 39.3       | 42.39      |
| Total Assets (€bn)    | 94.7       | 91.9       |

#### Hamburgische Landesbank

Hamburgische Landesbank was established in 1938 and, prior to the merger, it had total assets of approximately €87.5 billion. Prior to the merger, Hamburgische Landesbank was among the leading 18 banks in Germany by total assets and had a focus on northern Germany and the Baltic Sea region. Hamburgische Landesbank acted as the central clearing institution for the savings banks and was a state and municipal bank supporting the Free and Hanseatic City of Hamburg.

#### Income Statement

|  | 31/12/2002 | 31/12/2001 | Changes 2002/2001 |           |
|--|------------|------------|-------------------|-----------|
|  | € million  | € million  | € million         | %         |
| Net interest income  | 816        | 671        | 145               | 22        |
| Net commission income  | 87         | 93         | -6                | -7        |
| Net income from trading  | 22         | 18         | 4                 | 22        |
| <b>Total net interest, commission and trading income</b>                   | <b>925</b> | <b>782</b> | <b>143</b>        | <b>18</b> |
| General administrative expenses  | -334       | -296       | -38               | 13        |
| Other operating expenses / income  | 19         | 66         | -47               | -71       |
| <b>Operating profit before risk provisions, taxes and profit transfers</b> | <b>610</b> | <b>58</b>  | <b>153.9</b>      | <b>11</b> |
| Risk provisions/evaluations thereof:                                       | -295       | -280       | -15               | 5         |
| <b>Operating profit before taxes and profit transfers</b>                  | <b>315</b> | <b>272</b> | <b>43</b>         | <b>16</b> |

| Key figures           | 31/12/2002 | 31/12/2001 |
|-----------------------|------------|------------|
| Cost:Income Ratio (%) | 35.4       | 34.9       |
| Total Assets (€bn)    | 87.5       | 87.3       |

## TAXATION

***The following is a general summary of certain tax considerations in Denmark and Guernsey relating to the ScandiNotes I. It does not purport to be a complete analysis of all tax considerations relating to the ScandiNotes I. Prospective purchasers of ScandiNotes I should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the Kingdom of Denmark and Guernsey of acquiring, holding and disposing of ScandiNotes I and receiving payments of interest, principal and/or other amounts under the ScandiNotes I. This summary is based upon the law as in effect on the date of this Supplemental Information Memorandum and is subject to any change in law that may take effect after such date.***

### **Danish Taxation**

#### *Investors*

The following describes the taxation of Danish resident investors investing in the ScandiNotes I.

Investors subject to full tax liability include individuals resident in Denmark, foreign individuals who spend at least six months in Denmark and companies and other bodies incorporated in Denmark or whose management is based in Denmark.

#### *Individuals*

Individuals fully tax liable in Denmark are taxable according to the Danish Capital Gains Tax Act (*Kursgevinstloven*).

The Danish Tax Assessment Council (*Ligningsrådet*) has in a binding ruling stated that the ScandiNotes I fulfil the minimum interest rate requirement for Danish tax purposes. Consequently, capital gains on the ScandiNotes I are tax-free, and losses are not deductible.

Interest income will be taxable as capital income.

#### *Companies*

Danish tax resident companies are taxable according to the Danish Capital Gains Tax Act (*Kursgevinstloven*).

Gains on the ScandiNotes I are taxable at the normal corporate tax rate, and losses are deductible. Gains and losses are normally taxed at realisation. Gains and losses are computed on an average basis.

Interest income is taxable at the normal corporate tax rate on an accrual basis.

#### *Companies liable to PAL-tax*

Danish pension funds and life insurance companies are among others liable to tax pursuant to the Danish Pension Yield Tax Act ("**PAL**").

Gains and losses on the ScandiNotes I are included in taxable PAL-income. Gains and losses are calculated on a mark-to-market value and taxed on an accrual basis.

Interest income is included in PAL-income and taxed on an accrual basis.

### **Guernsey Taxation**

The following summary of the anticipated tax treatment in Guernsey in relation to the payments on the ScandiNotes I is based on the taxation law and practice in force at the date of this document, and does not constitute legal or tax advice and prospective investors should be aware that the relevant fiscal rules and practice and their interpretation may change. Prospective investors should consult their own professional advisers on the implications of subscribing for, buying, holding, selling, redeeming or disposing of ScandiNotes I and the receipt of interest and distributions (whether or not on a winding-up) with respect to such ScandiNotes I under the law of the jurisdictions in which they may be liable to taxation.

Mare Baltic has applied for and has been granted tax exempted status in Guernsey pursuant to the Income Tax (Exempt Bodies) (Guernsey) Ordinances 1989, 1992 and 1996. The exemption is granted on an annual basis after payment of an annual fee to the States of Guernsey Income Tax Authority. It is the intention of the directors of Mare Baltic to apply for such exemption annually.

No withholding tax or deduction will be made on interest payments made by Mare Baltic in respect of any ScandiNotes I issued by Mare Baltic to Noteholders not resident in Guernsey.

Noteholders who do not engage in trade or carry on business through a permanent establishment in Guernsey for Guernsey tax purposes and who are not resident in Guernsey for Guernsey tax purposes will not suffer any charge for Guernsey income tax on any interest payments received from Mare Baltic nor will such holders be required to file or make any return to the Income Tax Authority in Guernsey.

Under current legislation in Guernsey, there is no liability to Capital Gains Tax, Wealth Tax, Capital Transfer Tax or Estate of Inheritance Tax on the issue, transfer, realisation or redemption of ScandiNotes I nor is any stamp duty or similar tax payable in Guernsey on the issue or transfer of such Notes.

Holders of ScandiNotes I who are resident for tax purposes in Guernsey or engage in trade or carry on business in Guernsey through a branch or agency to which the ScandiNotes I are attributable may be subject to Guernsey income tax on the interest paid on the ScandiNotes I.

In the event of the death of a sole holder of ScandiNotes I, a Guernsey grant of probate or administration may be required in respect of which certain fees will be payable to the Ecclesiastical Registrar in Guernsey.

**This description does not constitute tax advice, as it does not address all possible tax consequences relating to an investment in the ScandiNotes I. Investors should therefore consult their own tax advisers regarding the tax consequences of acquiring, holding and disposing of the ScandiNotes I based on their individual tax position.**

**SUBSCRIPTION AND SALE****Subscription**

By a Programme Agreement dated on or around 4 July 2003 between the Issuer and HSH Nordbank, HSH Nordbank as arranger and dealer has provided advice to the Company in relation to the ScandiNotes I. HSH Nordbank has subscribed for the principal amount of the ScandiNotes I on the issue date for its own account.

**Resale**

The ScandiNotes I will be offered by HSH Nordbank for resale to third parties at market prices, subject to availability, by means of, inter alia, this Supplemental Information Memorandum.

HSH Nordbank may appoint one or more placing agents in connection with the resale of the ScandiNotes I.

**Stabilisation**

In connection with the offer of the ScandiNotes I, HSH Nordbank may effect transactions with a view to supporting the market price of the ScandiNotes I at a level higher than that which might otherwise prevail for a limited period after the issue date. However, there is no obligation on HSH Nordbank to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.

## SELLING RESTRICTIONS

### *Finland*

This Supplemental Information Memorandum constitutes neither a prospectus (*tarjousesite*) nor listing particulars (*listalleottoesite*) under the Finnish Securities Market Act (495/1989) nor has it been filed with or approved by the Finnish Financial Supervision Authority. This Supplemental Information Memorandum is being distributed to a limited number of pre-selected investors in circumstances where the offer of the ScandiNotes I in connection with this document does not constitute a public offer as defined in the Securities Market Act of the Republic of Finland. The Dealer has acknowledged, and each further Dealer appointed under the Programme Agreement in relation to the ScandiNotes I will be required to acknowledge that the ScandiNotes I have not been and will not be offered or sold, directly or indirectly, to any resident of the Republic of Finland or in the Republic of Finland, except pursuant to applicable Finnish laws and regulations. Specifically, the ScandiNotes I must not be offered or sold, directly or indirectly, to the public in the Republic of Finland.

### *Germany*

The Dealer has represented and agreed, and each further Dealer appointed under the Programme in relation to the ScandiNotes I will be required to represent and agree, that it has only offered and sold and will only offer and sell ScandiNotes I in the Federal Republic of Germany in accordance with the provisions of the Securities Sales Prospectus Act of 13 December 1990, as amended (*Wertpapier-Verkaufsprospektgesetz*) and any other laws applicable in the Federal Republic of Germany governing the issue, sale and offering of securities.

### *Japan*

The ScandiNotes I have not been and will not be offered or sold in Japan except in compliance with the Securities and Exchange Law of Japan (the “**Securities and Exchange Law**”) and the Dealer has agreed, and each further Dealer appointed under the Programme in relation to the ScandiNotes I will be required to represent and agree, that it will not offer or sell any ScandiNotes I, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for reoffering or resale, directly or indirectly, in Japan or to a resident of Japan except in compliance with the Securities and Exchange Law and any other applicable laws, regulations, ministerial ordinances and ministerial guidelines of Japan.

### *Norway*

The Dealer has acknowledged, and each further Dealer appointed under the Programme Agreement in relation to the ScandiNotes I will be required to acknowledge that no public offerings or sale of the ScandiNotes I or any distribution of any offering material relating to the ScandiNotes I will be made in or from Norway, except for ScandiNotes I in respect of which the requirements of Norwegian law concerning public offering of securities in Norway, including but not limited to the Norwegian Securities Trading Act, have been fulfilled.

### *Sweden*

The Dealer has agreed and each further Dealer appointed under the Programme Agreement in relation to the ScandiNotes I will be required to represent and agree that it will not (directly or indirectly) offer for subscription or purchase or issue invitations to subscribe for or purchase or sell any ScandiNotes I or distribute any draft or definitive documents in relation to any such offer, invitation or sale in Sweden except in compliance with the laws of Sweden.

### *United Kingdom*

The Dealer has represented and agreed, and each further Dealer appointed under the Programme in relation to the ScandiNotes I will be required to represent and agree, that:

1. It has not offered or sold and, prior to the expiry of the period of six months from the issue date of the ScandiNotes I, will not offer or sell the ScandiNotes I to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended);
2. It will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (“**FSMA**”)) received by it in connection with the issue or sale of the ScandiNotes I in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

3. It has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the ScandiNotes I in, from or otherwise involving the United Kingdom.

*United States*

The Dealer has acknowledged, and each further Dealer appointed under the Programme Agreement in relation to the ScandiNotes I will be required to acknowledge, that the ScandiNotes I have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from or in a transaction not subject to, the registration requirements of the Securities Act. Terms used in the preceding sentence have the meanings given to them by Regulation S under the Securities Act.

ScandiNotes I in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to U.S. persons, except in certain transactions permitted by U.S. tax regulations. Terms used in the preceding sentence have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

The ScandiNotes I are being offered and sold only outside the United States to persons other than U.S. persons ("foreign purchasers", which term includes dealers or other professional fiduciaries in the United States acting on a discretionary basis for foreign beneficial owners, other than an estate or trust) in reliance upon Regulation S.

Terms used in this section of "Selling Restrictions" have the meanings given to them by Regulation S.

**General**

Each Dealer will be required to agree that it will comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers ScandiNotes I or has in its possession or distributes this Supplemental Information Memorandum.

### GENERAL INFORMATION

1. The Issuer was established on 31 January 2003 with registered number 40490. Its domicile is Guernsey, the Channel Islands.
  2. The registered office of the Company is located at P O Box 73, Harbour Court, Les Amballes, St. Peter Port, Guernsey GY1 3DD, Channel Islands.
  3. The accounting period of the Company ends on 31 December.
  4. Pursuant to a VP agency agreement to be dated on or before the Issue Date and made between HSH Nordbank and the Issuer (the "**VP Agency Agreement**"), the Issuer will appoint HSH Nordbank as, *inter alia*, its authorised issuing agent in relation to the ScandiNotes I. As such, HSH Nordbank will act as intermediary between the Issuer and the VP in relation to certain matters concerning the registration at the VP and servicing of the ScandiNotes I, for which it will receive a fee.
  5. The Articles of Association of the Issuer have been filed with the Greffe in Guernsey.
  6. There has been no material adverse change in the financial position of the Issuer since 4 July 2003. Audited accounts will be prepared annually for the accounting period ending 31 December and these are expected to be published in or about the following 30 June.
  7. The Issuer is not involved in any legal or arbitration proceedings nor is the Issuer aware that any such proceedings are pending or threatened.
  8. KPMG have given and not withdrawn their written consents to the issue of this Supplemental Information Memorandum.
  9. HSH Nordbank will pay substantially all of the expenses of the issue of the ScandiNotes I. The Issuer will not pay any selling commissions in connection with the subscription of the ScandiNotes I. In connection with the issue the following costs have been estimated in relation to printing costs, costs payable to the Copenhagen Stock Exchange and costs payable to the VP.
 

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|---|--|--|
| - | Printing of Supplemental Information Memorandum: | DKK 110,000  |
| - | Copenhagen Stock Exchange A/S:                   | DKK 40,000 up-front and approximately DKK 14,000 annually. |
| - | VP:  | DKK 2,000 up-front and approximately DKK 6,000 annually.   |
- The net proceeds of issue of the ScandiNotes I, amounting to DKK 380,000,000 shall be applied by the Issuer in acquiring the Repackaging Assets from HSH Nordbank.
10. None of the directors of the Issuer will receive any commissions or fees in connection with the issue of the ScandiNotes I over and above their fees as directors of the Issuer.
  11. Copies of the following documents may be inspected during usual business hours at the office of the Arranger at Kalvebod Brygge 39-41, DK-1560, Copenhagen V, Denmark for 14 days from the date of this Supplemental Information Memorandum:
    - (a) the Articles of Association of the Issuer;
    - (b) the Principal Trust Deed;
    - (c) the Agency Agreement;
    - (d) this Supplemental Information Memorandum;
    - (e) the VP Agency Agreement and the VP Agreement; and

- (f) drafts (subject to modification) of the following documents:
  - (i) the First Supplemental Trust Deed constituting the ScandiNotes I; and
  - (ii) the Pledge Agreement.
  
- 12. The documents referred to in paragraph 11 above will be available for inspection, and copies of the Issuer's annual accounts will be obtainable, during the life of the ScandiNotes I, at the office of the Issuer currently at P O Box 73, Harbour Court, Les Amballes, St. Peter Port, Guernsey, The Channel Islands.

**REGISTERED OFFICE OF THE ISSUER**

**Mare Baltic PCC Limited**

PO Box 73  
Harbour Court  
Les Amballes  
St. Peter Port  
Guernsey GY1 3DD  
Channel Islands

**ARRANGER AND DEALER**

**HSH Nordbank AG  
Copenhagen Branch**

Kalvebod Brygge 39-41  
DK-1560 Copenhagen V  
Denmark

**TRUSTEE**

**The Law Debenture Trust Corporation p.l.c.**

Fifth Floor  
100 Wood Street  
London EC2V 7EX  
England

**PRINCIPAL PAYING AGENT, ISSUE AGENT, VP  
AGENT, COPENHAGEN PAYING AGENT AND  
REGISTRAR**

**HSH Nordbank AG  
Copenhagen Branch**  
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DK-1560 Copenhagen V  
Denmark

**OPERATION SERVICES PROVIDER**

**HSH Nordbank AG  
Copenhagen Branch**  
Kalvebod Brygge 39-41  
DK-1560 Copenhagen V  
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*to the Arranger, Dealer, Principal Paying Agent, Issue  
Agent and Registrar as to English law*

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*to the Arranger, Dealer and VP Agent as to Danish law*

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*to the Issuer as to Guernsey law*

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Channel Islands

*to the Trustee as to English law*

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Channel Islands

**COPENHAGEN LISTING AGENT AND  
INVESTMENT ADVISER**

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