HSH Nordbank AG 24103 Kiel, Germany

OMX Copenhagen

Kiel, April 15th 2015

Your Contact
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Our Reference: ScandiNotes

Mare Baltic PCC Limited - Annual Report 2014

Dear Sir or Madam,

Please find attached the Annual Report which is covering the period 01 January 2014 to 31 December 2014 and is also considering subsequent events until 15 April 2015.

On behalf of Mare Baltic PCC Limited
HSH Nordbank AG

Mare Baltic PCC Limited
Annual report

31 December 2014

Index to the financial statements

Directors:	David Gary Gough Wayne Bulpitt
Secretary:	Newhaven Secretaries (Channel Islands) Limited
Auditor:	KPMG Channel Islands Limited Chartered Accountants Glategny Court Glategny Esplanade St. Peter Port Guernsey GY1 1WR
Registered office:	PO Box 212 St Martins House Le Bordage St. Peter Port Guernsey GY1 4JE

Directors' report

The Directors submit their report and the audited financial statements for Mare Baltic PCC Limited (the "Company") for the year ended 31 December 2014.

Incorporation

The Company was registered in Guernsey, Channel Islands on 31 January 2003.

Activities

The principal activity of the Company is the issue of notes and investing in subordinated loans. The net proceeds from the issue of each series of notes are used to acquire subordinated loans. The market for these investments and hence the notes issued by the Company, is intended for sophisticated investors who understand the risks and rewards associated with the unpredictable cash flows arising herefrom. The Company's notes are listed on the OMX Nordic Exchange Copenhagen.

The first cell, Cell 1- 2003 (ScandiNotes® I), was based on subordinated capital for Danish banks and launched the first issue under the Mare Baltic PCC Limited program on 4 July 2003. The issue was divided into two tranches, a Junior Tranche of DKK 45,681,000 (approx. 10% of the issue) and a Senior Tranche of DKK 388,448,000 (approx. 90% of the issue). This issue was redeemed according to plan in June 2008. The cell was closed in August 2009.

The second cell, Cell 1- 2004 (ScandiNotes® II), likewise based on subordinated capital for Danish banks, was launched on 1 November 2004 under the Mare Baltic PCC Limited program. This issue was like ScandiNotes® I divided into two tranches, a Junior Tranche (ISIN DK0003454825) of DKK 133,600,000 (approx. 15% of the issue) and a Senior Tranche (ISIN DK0003454742) of DKK 728,375,000 (approx. 85% of the issue). The Senior Tranche was rated by Moody's and originally achieved an A2 long-term rating. On the first possible redemption date for participating banks in ScandiNotes® II all banks but two (Østjydsk Bank and Amagerbanken Aktieselskab) decided to exercise their option to redeem their term loan except for the banks which had RA events previously[1]. As a consequence of the RA events the redemption on 1 November 2009 amounted to DKK 575,700,000 equaling 79% of the Senior Tranche at par. The amount was derived from the underlying swap and the redeemed loans. The Senior Tranche after 1 November 2009 had a nominal amount of DKK 152,675,000. This nominal amount was reduced to DKK 77,675,000 after the bankruptcy of Amagerbanken Aktieselskab on 7 February 2011. The allocation of all losses of defaulted participating banks resulted in a further reduction of the nominal amount to DKK 61,275,000 as of 31 December 2011. The Senior Tranche had been serviced by a single underlying loan of DKK 60,000,000. This loan was repaid and the Senior Tranche was therefore finally redeemed on 1 November 2012. The cell was closed in December 2013.

[1] RA events are understood here as circumstances in which there is a default or deferral by any of the borrowers of any interest or installments under the Repackaging Assets when due or any borrower has stated that it intends to defer or repudiate its obligations for whatever reason in respect of the Repackaging Assets.

Directors' report (continued)
Activities (continued)

The third cell, Cell – 1 2005 (ScandiNotes® III), was like ScandiNotes® I and ScandiNotes® II, based on subordinated capital for financial institutions, but for this issue a wider geographical mix of subordinated loans from Nordic Institutions was purchased. The Issue was launched on 1 November 2005. This Issue was divided into three tranches, a Junior Tranche (ISIN DK0030015391) of DKK 279,050,000, a Mezzanine Tranche (ISIN DKK0030015201) of DKK 413,370,000 and a Senior Tranche (ISIN DK0030015128) of EUR 201,600,000. The Mezzanine Tranche was originally rated Baa2 by Moody's and the Senior Tranche was originally rated Aa2 by Moody's. The current rating of the ScandiNotes® III Mezzanine Tranche is C and of the ScandiNotes® III Senior Tranche is Ca. On the first possible redemption date for participating banks in ScandiNotes® III, eight banks decided to exercise their option to redeem their term loans except for the banks which had RA events previously. As a consequence, the redemption on 1 November 2010 amounted to EUR 106,368,600 equaling 53% of the Senior Tranche. The amount was derived from the underlying swap and the redeemed loans. The Senior Tranche after 1 November 2010 had a nominal amount of EUR 95,231,400 and the Mezzanine and Junior Tranches had a nominal amount of DKK 0. This nominal amount has been reduced in 2011 further to EUR 68,231,400 after the bankruptcy of Amagerbanken Aktieselskab. Furthermore on 5 May 2011 the Senior Tranche was partially redeemed by a principal payment of EUR 441,588 and additionally by EUR 5,000,000 because one remaining participating bank decided to prepay its loan according to the underlying loan documentation. Afterwards, the nominal amount had been further reduced to EUR 45,289,812 after the bankruptcy of Fjordbank Mors A/S and Max Bank A/S. On 2 May 2012 the Senior Tranche was further partially redeemed down to EUR 40,289,812. After the default of Tønder Bank A/S in November 2012 and Sparekassen Lolland A/S in January 2013 the amount left in the Senior Tranche was reduced to EUR 20,289,812. On 1 November 2013 the Senior Tranche was partially redeemed down to EUR 16,789,812. The nominal amount is serviced by an underlying loan amounting to EUR 12,500,000. After 1 November 2010 the Notes retain floating interest on a semi-annual basis, payable on 1 May and 1 November each year, according to the prospectus.

The fourth cell, Cell – 1 2006, (ScandiNotes® IV), was like the first and the second cell based on subordinated capital for Danish banks. The issue was launched on 17 November 2006. Like ScandiNotes® III, the issue was divided into three tranches, a Junior Tranche (ISIN DK0030039730) of DKK 300,135,000, a Mezzanine Tranche (ISIN DK0030039656) of DKK 879,571,000 and a Senior Tranche (ISIN DK0030039573) of EUR 170,011,000. The Mezzanine Tranche was originally rated Baa2 by Moody's and the Senior Tranche was originally rated AAA by Moody's. The current rating of the ScandiNotes® IV Mezzanine Tranche is Ca and of ScandiNotes® IV Senior Tranche is B3. The Junior Tranche suffered a total loss after the defaults of EBH Bank A/S and Roskilde Bank A/S. The nominal amount of the Mezzanine Tranche was reduced due to RA events in the past down to DKK 727,400,000 and in 2011 further to DKK 326,106,930 after the bankruptcy of Amagerbanken Aktieselskab, Fjordbank Mors A/S and Max Bank A/S. After the default of Sparekassen Østjylland in April 2012 and Tønder Bank A/S in November 2012 the amount left in the Mezzanine Tranche was reduced to DKK 276,106,930. On the first possible redemption date for participating banks in ScandiNotes® IV six banks decided to exercise their option to redeem their term loans. As a consequence hereof, the redemption on 17 November 2011 amounted to EUR 145,342,130 equaling 85% of the Senior Tranche. The amount was derived from the transactions´ swaps and the redeemed loans. The Senior Tranche after 17 November 2011 had a nominal amount of EUR 24,668,869 and was again partially redeemed on 19 November 2012 down to EUR 11,276,430. On the payment date in May 2013 one bank decided to exercise their option to

Directors' report (continued)
Activities (continued)

redeem their term loan so that the Senior Tranche was finally redeemed and the Mezzanine Tranche partially. The Senior Tranche after 17 May 2013 had a nominal amount of EUR 0 and the Mezzanine Tranche DKK 160,262,932. On the payment date in May 2014 one bank decided to exercise their option to redeem their term loan so that the Mezzanine Tranche was partially redeemed. The Mezzanine Tranche after 17 May 2014 had a nominal amount of DKK 85,262,932. On 17 November 2014 the Mezzanine Tranche was finally redeemed down to DKK 0. The cell is at the moment in a wind-down process.

Financial markets update

For all cells the notes were sold immediately to HSH Nordbank AG, Copenhagen Branch, with the purpose of on-selling into the capital markets to eligible professional investors.

The international crisis on the financial markets deepened during 2008. Following the default of Lehman Brothers in September 2008, large uncertainty spread across the financial industry. The uncertainty led to a further substantial reluctance in the interbank market and many banks found themselves in severe liquidity distress. The struggle for liquidity also impacted the Danish financial industry and forced the sector to consolidate. Unfortunately there have, as a consequence of the crisis and subsequently credit losses in the banks, also been a number of events and defaults in the ScandiNotes® subordinated loan portfolio. These events and defaults are further outlined below.

Protected Cell Company

The Company is a Protected Cell Company in accordance with the Companies (Guernsey) Law, 2008. The assets of the Company can be either cellular assets or non-cellular assets. The assets attributable to a cell comprise assets represented by the proceeds of cell share capital, reserves and any other assets attributable to the cell. The non-cellular assets comprise the assets of the Company, which are not cellular assets. Where a liability arises from a transaction in respect of a particular cell, the cellular assets attributable to that cell should be liable and the liability shall not be a liability of assets attributable to any other cell or of the non-cellular assets unless the Company has entered into a recourse agreement.

Events and defaults affecting the asset portfolio

SparTrelleborg was taken over by Sydbank in March 2008.

Vestjysk Bank took over Bonusbanken in September 2008 and merged with Ringkjøbing Bank in December 2008. The continuing entity is called VestjyskBANK.

Forstædernes Bank was acquired by Nykredit Realkredit in October 2008. Forstædernes Bank merged with Nykredit Bank A/S – effective date 1 April 2010.

In November 2008, Sandsvaer Sparebank and Sparebank1 Vestfold merged to form SpareBank1 Buskerud-Vestfold.

Directors' report (continued)
Events and defaults affecting the asset portfolio (continued)

Roskilde Bank made a sales agreement on 24 August 2008 with the Danish Central Bank and the Private Contingency Association to transfer all assets, including loan portfolio, name, etc. and all debts and other liabilities except for equity, hybrid core capital and subordinated loan capital. The former Roskilde Bank changed name to “Selskabet af 1. September 2008 A/S”. The latter filed for bankruptcy on 3 March 2009 and shares were delisted on 5 March 2009. ScandiNotes® III and IV were affected thereby.

EBH Bank failed to meet the solvency requirement and as a consequence made an agreement with The Financial Stability Company, Finansiel Stabilitet A/S, a newly established Danish state owned company under the Act on Financial Stability with the purpose of securing financial stability in Denmark. All assets and liabilities except for equity and subordinated capital were transferred to Finansiel Stabilitet A/S in November 2008. The company left behind no longer exists, as the Danish authorities have dissolved it (compulsory dissolution) due to lack of management in the company. It is therefore unlikely that recoveries can be achieved on the respective term loans. ScandiNotes® III and IV were affected thereby.

In March 2009 the Icelandic Financial Supervisory Authority (FME) decided to assume the powers of the Reykjavik Savings Bank (Spron) at the shareholders meeting - the Board of Directors were dismissed immediately. The FME appointed a Resolution Committee which took the authority of the Board of Directors, including all management of Spron's assets. Furthermore, the FME made a decision on the disposal of assets and liabilities of Spron. New Kaupthing Bank hf. took over the bank's obligations according to this decision. Spron's shares have been delisted from Nasdaq OMX Iceland. On 3 June 2010 a creditors meeting was held by the Winding-up Board of Spron. The Company's claim was acknowledged as a subordinate claim according to Art. 114 of the Act on Bankruptcy etc., no. 21/1991. The Winding-up Board is, according to Art. 119 of the Act on Bankruptcy etc., no. 21/1991, not required to take a stand with respect to a claim if it can be regarded as certain that nothing will be paid towards it upon distribution. With reference to Art. 119 the Winding-up Board will not take a stand on subordinate claims according to Art. 114 of the Act on Bankruptcy etc., no. 21/1991 as it is clear that no amount will be retrieved towards subordinate claims in the distribution of assets towards claims lodged against Spron. Therefore, according to this decision taken by the Winding-up Board, the Company's claim will not be retrieved. ScandiNotes® III was affected thereby.

In March 2009 Sparisjodabanki Islands (former Icebank) was granted a moratorium by the Icelandic Financial Supervisory Authority (FME) on payments until 15 June 2009 to give the bank time to reorganise its finances. This moratorium was extended to 15 December 2009. The FME in cooperation with the Central Bank of Iceland claimed serious lack of liquidity and ongoing equity problems which constitute extreme circumstances as defined by Art. 100a, par. 3 of the Act on Financial Undertakings. In December 2010 the Winding-up Board informed that the claim will not be retrieved. ScandiNotes® III was affected thereby.

Fionia Bank signed in 2009 an agreement with Finansiel Stabilitet A/S and as a consequence all assets and liabilities except equity and subordinated capital have been transferred to a new company controlled by Finansiel Stabilitet A/S. Equity and subordinated capital will stay in the

Directors' report (continued)
Events and defaults affecting the asset portfolio (continued)

former company which has been renamed "Fionia Holding". Fionia Holding will as a result not be able to pay interest or principal on their subordinated loans in ScandiNotes® II, III and IV.

On 23 April 2009 Moody's Investors Service downgraded the long-term debt and deposit ratings of HSH Nordbank AG (HSH) to A2 from A1. This downgrade made it necessary in accordance with the transaction documentation to replace HSH Nordbank in the functions of Account Bank, VP Agent (ScandiNotes® II-IV) and Custodian in relation to pledged collateral (ScandiNotes® III and IV) by a bank with the required A1/P1 rating.

In consultation with the Trustee, Nordea Bank Danmark A/S (NBD) was selected and arrangements made for them to be appointed Account Bank, VP Agent and Custodian in respect of the Series 2005-1 Cell (ScandiNotes® III) and Series 2006-1 Cell (ScandiNotes® IV). Appropriate Novation Agreements, revisions to Pledge Agreements and Collateral Pledge Agreements were duly executed.

The Danish Financial Supervisory Authority (Danish FSA) granted its permission for Max Bank A/S and Skælskør Bank A/S to merge on 15 September 2010. The Financial Stability Company approved the merger on 2 September 2010. The merged entity is called Max Bank A/S. Max Bank A/S participates in ScandiNotes® IV. On 10 October 2011 Max Bank A/S announced that it would file a bankruptcy petition. ScandiNotes® III and ScandiNotes® IV were affected thereby.

Sparbanken Gripen, Sparbanken Finn and Sparbanken Syd merged with effect from 1 January 2011. Sparbanken Gripen participated in ScandiNotes® III and repaid its loan on 2 May 2011.

Morsoe Sparekasse and Morsoe Bank A/S merged on 1 November 2010. The new entity was called Fjordbank Mors A/S and participated in ScandiNotes® III and ScandiNotes® IV. On 26 June 2011 Fjordbank Mors announced that it would file a bankruptcy petition. ScandiNotes® III and ScandiNotes® IV were affected thereby.

On 7 February 2011 Amagerbanken Aktieselskab was declared bankrupt. Amagerbanken Aktieselskab participated in ScandiNotes® II, ScandiNotes® III and ScandiNotes® IV which were affected thereby.

On 15 March 2012, Sparekassen Farsø and Den Jyske Sparekasse merged, with Den Jyske Sparekasse as the continuing entity. Sparekassen Farsø participated in ScandiNotes® III and ScandiNotes® IV.

Sparekassen Østjylland has been partially taken over by Finansiel Stabilitet on 22 April 2012. This resulted in a default affecting ScandiNotes® IV (the bank also participated in ScandiNotes® III, but repaid its loan before the default).

On 5 November 2012, Tønder Bank A/S was declared bankrupt by the court of Sønderborg. Prior to the bankruptcy all assets were transferred to Sydbank A/S on 2 November 2012. Additionally, on 6 November 2012 the curator declared that none of the subordinated creditors/ subordinated loans has been taken over by Sydbank A/S. Tønder Bank A/S participated in ScandiNotes® III and IV.

Directors' report (continued)
Events and defaults affecting the asset portfolio (continued)

On 14 November 2012, Spar Nord Bank A/S merged with Sparbank A/S, with Spar Nord Bank A/S as surviving entity. Spar Nord Bank A/S participated in ScandiNotes® III and ScandiNotes® IV.

On 28 January 2013, Sparekassen Lolland A/S was declared bankrupt. Sparekassen Lolland A/S participated in ScandiNotes® III, which was affected thereby.

On 18 July 2014 Østjydsk Bank A/S declared it would no longer make any payments of interest on ScandiNotes® III, as the bank does not fulfill the solvency requirements under the Danish Financial Business Act.

Portfolio losses outlined

ScandiNotes® III

Due to the RA events there will be a shortfall in the cash flow required by the issuer to service payments due under the notes. All swaps that had not been reset or terminated earlier expired on 1 November 2010. The only hedging agreements in place are the Liquidity Swaption and the Currency Option.

Effects on the Junior Tranche

Due to the RA events no cash flow is available for the Junior Tranche. The loss for the Junior Note holders is thus, subject to any potential recoveries from the above mentioned defaulted banks participating in ScandiNotes® III, 100% of the investment.

Effects on the Mezzanine Tranche

Due to the RA events no cash flow is available for the Mezzanine Tranche. The loss for the Mezzanine Note holders is thus, subject to any potential recoveries from the above mentioned defaulted banks participating in ScandiNotes® III, 100% of the investment.

Effects on the Senior Tranche

Due to the RA events the amounts payable to the issuer on each payment date had been reduced from 2 per cent per annum on a notional amount of EUR 201,600,000 to 2 per cent per annum on a notional amount of EUR 196,868,600. The amount payable to the Issuer on the Termination Date of the Class A Swap had been reduced from EUR 201,600,000 to EUR 196,868,600. Because the Class A Swap was terminated on 1 November 2010, the Senior Tranche was redeemed down to EUR 95,231,400. Due to the bankruptcy of Amagerbanken Aktieselskab the Senior Tranche was further reduced to EUR 68,231,400. The loss for the Senior Note holders was further increased by the RA Events of Fjordbank Mors A/S in June and Max Bank A/S in October 2011 and thus reached, subject to any potential recoveries from the above mentioned defaulted banks participating in ScandiNotes®III, 24.42% of the investment. On 2 May 2012 the Senior Tranche was further partially redeemed down to EUR 40,289,812. After the default of Tønder Bank A/S in November 2012 and Sparekassen Lolland A/S in January 2013 the amount left in the Senior Tranche was reduced to EUR 20,289,812. On 1 November 2013 the Senior Tranche was partially redeemed down to EUR 16,789,812. The Loss of Tranche is therefore 34.34%. This nominal amount is serviced by underlying loans amounting to EUR 12,500,000.

Directors' report (continued)
Portfolio losses outlined (continued)

<u>ScandiNotes® IV</u>

Due to the RA events, there will be a shortfall in the cash flow required by the issuer to service payments due under the notes. Thus, the Class C Swap has been terminated and the Class B Swap has been reset to reflect the loss of cash flow from the above mentioned defaulted banks participating in ScandiNotes® IV.

Effects on the Junior Tranche

Due to the RA events no cash flow is available for the Junior Tranche. The loss for the Junior Note holders is thus, subject to any potential recoveries from the above mentioned defaulted banks participating in ScandiNotes® IV, 100% of the investment.

Effects on the Mezzanine Tranche

The principal of the Class B Mezzanine Tranche Notes had been reduced from an original notional amount of DKK 879,571,000 to DKK 727,400,000 before 2011, being the amount on which the Issuer expected an ongoing rate of interest equal to 3% per annum. This notional amount had been further reduced to DKK 528,166,376 after the bankruptcy of Amagerbanken Aktieselskab as of 7 February 2011 and to DKK 276,106,930 after the bankruptcy of Fjordbank Mors A/S, MaxBank A/S, Sparekassen Oestjylland and Tønder Bank A/S. The reduction in principal was shared on a pro-rata basis by the Mezzanine Tranche Class B note holders. This means that there has been a reduction of interest and principal on the Mezzanine Tranche Class B Notes. The loss for the Mezzanine Note holders is, subject to any potential recoveries from the above mentioned defaulted banks participating in ScandiNotes® IV, 68.61% of the investment. After 17 November 2011 interest is payable on a semi-annual basis. On 17 November 2014 the Mezzanine Tranche was finally redeemed down to nil.

Effects on the Senior Tranche

The RA events have not affected the original notional amount of EUR 170,011,000 in the Senior Tranche. The reductions of the nominal down to EUR 24,668,869 and again down to EUR 11,276,430 on 19 November 2012 and down to nil on 17 May 2013 are the result of prepayments of the underlying loans.

Results and dividends

ScandiNotes® III and ScandiNotes® IV have both been impacted by increased credit risks and defaults leading to losses for the investors as described.

The result for the year is shown in the income statement on page 15. The Directors have not declared a dividend for 2014.

Directors' report (continued)
Portfolio losses outlined (continued)

Going concern

The Directors have not adopted the going concern basis in preparing the financial statements. The following is a summary of the Directors' assessment of non-going concern. The Directors have a reasonable expectation that the Company will be wound down when the remaining loans and notes mature. As the Company expects to cease trading and is likely to enter the liquidation process within 12 months, the accounts have not been prepared on a going concern basis. For ScandiNotes® IV, the underlying loans matured on 17 November 2014. Since then, the cell is being wound down.

For ScandiNotes® III, the underlying loans will mature on 30 October 2015. After this time, the cell will be closed. The costs of the cells are mainly covered by the 6month EURIBOR in SN III on the loan side and are capped at 0.15% per annum of the outstanding principal amount of the Repackaging Assets. Depending on the development of the 6m EURIBOR there is a risk that not all costs exceeding the cap can be covered in accordance with the transaction's waterfall. However to ensure that the cell remains viable and have adequate resources to continue its operational existence until the maturity of the remaining loan, the Operations Services Provider, HSH Nordbank AG, has agreed, if required, to waive or reduce its fees. It is the opinion of the Board of Directors that this undertaking will be sufficient to ensure the continuation of the cell's operations until its orderly closure. The financial statements do not include any provision for the future costs of terminating the business of the Company as the costs are expected to be immaterial. In the opinion of the Directors, the Company's assets are stated at net realizable value, approximating their fair value.

Administrator

The administrator of Mare Baltic PCC Limited is Newhaven Trust Company (Channel Islands) Limited.

The Company's registered office is at PO Box 212, St Martins House, Le Bordage, St. Peter Port, Guernsey, GY1 4JE.

The Company Secretary is Newhaven Secretaries (Channel Islands) Limited.

Trustees

The Law Debenture Trust Corporation plc
100 Wood Street
London
EC2V 7EX

Directors

The Directors who held office during the year were:

David Gary Gough
Wayne Bulpitt

Directors' statement of responsibilities

Guernsey Company Law

The Directors have prepared the Directors' report and the financial statements in accordance with the Companies (Guernsey) Law, 2008, as amended.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the EU and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business. As explained in note 2, the Directors do not believe it is appropriate to prepare the financial statements on a going concern basis.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

The auditor is KPMG Channel Islands Limited who is eligible for re-appointment.

By order of the Board

Wayne Bulpitt
Director

David Gary Gough
Director

KPMG Channel Islands Limited
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St Peter Port
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Independent auditor's report to the members of Mare Baltic PCC Limited

We have audited the financial statements of Mare Baltic PCC Limited (the "Company") for the year ended 31 December 2014 which comprise the aggregated, cellular and non-cellular statements of financial position, income, comprehensive income, changes in equity and cash flows, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the EU.

This report is made solely to the Company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the statement of directors' responsibilities set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the directors' report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2014 and of its results for the year then ended;
- are in accordance with International Financial Reporting Standards as adopted by the EU; and
- comply with the Companies (Guernsey) Law, 2008.

Independent auditor's report to the members of Mare Baltic PCC Limited (continued)

Emphasis of matter - Non-going concern basis of preparation

We draw attention to note 2.3 to the financial statements, which explains that the financial statements are not prepared on the going concern basis, for the reasons set out in that note. Our opinion is not modified in respect of this matter.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- the Company has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

KPMG Channel Islands Limited

KPMG Channel Islands Limited
Chartered Accountants, Guernsey

15 April 2015

The maintenance and integrity of the websites on which these financial statements are published is the responsibility of the directors or other responsible parties; the work carried out by auditors does not involve consideration of these matters and accordingly, KPMG Channel Islands Limited accepts no responsibility for any changes that may have occurred to the financial statements or our audit report since 15 April 2015. KPMG Channel Islands Limited has carried out no procedures of any nature subsequent to 15 April 2015 which in any way extends this date.

Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. The directors shall remain responsible for establishing and controlling the process for doing so, and for ensuring that the financial statements are complete and unaltered in any way.

(All amounts in EUR thousands unless otherwise stated)

Statement of financial position – Aggregated

	Note	As at 31 December 2014	2013 Restated
ASSETS			
Non-current assets			
Loans receivable		-	19,930
Derivative financial instruments	6	-	-
Total non-current assets		**-**	**19,930**
Current assets			
Loans receivable		6,116	-
Derivative financial instruments	6	-	511
Interest receivable	7	299	166
Other receivable		2	4
Cash and cash equivalents	8	2,573	4,170
Total current assets		**8,990**	**4,851**
Total assets		**8,990**	**24,781**
EQUITY			
Called up share capital	9	12	12
Retained earnings		2,597	3,959
Total equity		**2,609**	**3,971**
LIABILITIES			
Non-current liabilities			
Notes issued	10,14	-	20,441
Derivative financial instruments	6	-	-
Total non-current liabilities		**-**	**20,441**
Current liabilities			
Notes issued	10,14	6,116	-
Derivative financial instruments	6	-	-
Creditors		209	210
Accrued interest	11	56	159
Total current liabilities		**6,381**	**369**
Total liabilities		**6,381**	**20,810**
Total equity and liabilities		**8,990**	**24,781**

The financial statements on pages 16 to 56 were approved by the Board of Directors on 15.4.2015 and were signed on its behalf by:

The notes on pages 39 to 56 form an integral part of these financial statements

Income statement – Aggregated

	Year ended 31 December	
	2014	**2013 Restated**
Revenue		
Loan interest	823	1,384
	823	**1,384**
Expenditure		
Note interest	(975)	(1,118)
Interest on derivative financial instruments	504	485
Operational expenses	(336)	(383)
	(807)	**(1,016)**
Operating surplus	**16**	**368**
Realized and unrealized loss on derivative financial instruments	(512)	(506)
Realized and unrealized loss on notes	(7,166)	(24,939)
Realized and unrealized gain on loans	6,300	25,445
	(1,378)	**-**
Net result for the year	**(1,362)**	**368**

The notes on pages 39 to 56 form an integral part of these financial statements

(All amounts in EUR thousands unless otherwise stated)

Statement of comprehensive income – Aggregated

	Year ended 31 December	
	2014	**2013**
Net result for the year	(1,362)	368
Other comprehensive income		
Value adjustments for the year	-	-
Total other comprehensive income	-	-
	(1,362)	**368**
Total comprehensive income for the year is attributable to:		
Shareholders of Mare Baltic PCC Limited	(1,362)	368
	(1,362)	368

The notes on pages 39 to 56 form an integral part of these financial statements

(All amounts in EUR thousands unless otherwise stated)

Statement of changes in equity – Aggregated

	Called up share capital	Retained earnings	**Total equity**
Balance at 1 January 2013	**13**	**3,591**	**3,604**
Total comprehensive income for the year	-	368	368
Share capital redeemed	(1)	-	(1)
Balance at 31 December 2013	**12**	**3,959**	**3,971**
Balance at 1 January 2014	**12**	**3,959**	**3,971**
Total comprehensive income for the year	-	(1,362)	(1,362)
Balance at 31 December 2014	**12**	**2,597**	**2,609**

The notes on pages 39 to 56 form an integral part of these financial statements

(All amounts in EUR thousands unless otherwise stated)

Cash flow statement - All cells aggregated

	Year ended 31 December	
	2014	**2013**
Cash flows from operating activities		
Operating result for the year	16	368
(Increase)/decrease in interest receivable	(133)	212
Decrease in other receivable	2	1
Decrease in accrued interest	(103)	(73)
Decrease in creditors	(1)	(34)
Net cash (used in)/generated from operating activities	**(219)**	**474**
Cash flows from investing activities		
Loans repaid	20,114	30,307
Net cash generated from investing activities	**20,114**	**30,307**
Cash flows from financing activities		
Repayment of notes	(21,492)	(30,306)
Repayment of capital	-	(1)
Net cash flows used in financing activities	**(21,492)**	**(30,307)**
Net (decrease)/increase in cash and cash equivalents	(1,597)	474
Cash and cash equivalents at the beginning of the year	4,170	3,696
Cash and cash equivalents at the end of the year	**2,573**	**4,170**

The notes on pages 39 to 56 form an integral part of these financial statements

Statement for Cell 1 – 2003

Activities

Both the Senior and Junior Tranche of ScandiNotes® I were redeemed for a total of DKK 434,129,000 on 7 June 2008 as expected, following the repayment of the underlying assets in full with the approval by the Danish Financial Supervisory Authority.

The obligations of Cell 1 – 2003 had been fully discharged, all Note holders having been fully repaid upon redemption, and the cell was closed in August 2009.

Statement for Cell 1 – 2004

Activities

The Senior Tranche of ScandiNotes® II was redeemed for a total of DKK 635,725.70 on 1 November 2012, following the repayment of the underlying assets in full with the approval by the Danish Financial Supervisory Authority.

The Junior Tranche of ScandiNotes® II had a loss of 100%.

The remaining obligations of Cell 1 – 2004 having been fully discharged and all remaining Note holders having been fully repaid upon redemption, the cell was closed in December 2013.

Statement for Cell 1 – 2005

Activities

The principal activity in the cell is the issue of notes and investing in subordinated loans issued by Danish banks. The net proceeds from the issue of each series of notes are used to acquire subordinated loans. The market for these investments and hence the notes issued by the cell, is limited to sophisticated investors who understand the risks and rewards associated with the unpredictable cash flows arising therefrom. The cells' notes are listed on the OMX Nordic Exchange Copenhagen.

The third cell, Cell – 1 2005 (ScandiNotes® III), was like ScandiNotes® I and ScandiNotes® II, based on subordinated capital for financial institutions, but for this issue to Nordic Financial institutions. The issue was launched on 1 November 2005. This issue was divided into three tranches, a Junior Tranche of DKK 279,050,000, a Mezzanine Tranche of DKK 413,370,000 and a Senior Tranche of EUR 201,600,000. The current rating of the ScandiNotes® III Mezzanine Tranche is C and of the ScandiNotes® III Senior Tranche is Ca.

During 2014 all known delegated responsibilities have been complied with and due to the RA events there will be a shortfall in the cash flow required by the issuer to service payments due under the notes. The interest rate hedging agreement (Class A Swap) terminated on 1 November 2010. The only remaining hedging agreements are the Liquidity Swaption and the Currency Option.

Effects on the Junior Tranche
Due to the RA events no cash flow is available for the Junior Tranche. The loss for the Junior Note holders is, subject to any potential recoveries, 100% of the investment.

Effects on the Mezzanine Tranche
Due to the RA events no cash flow is available for the Mezzanine Tranche. The loss for the Mezzanine Note holders is, subject to any potential recoveries, 100% of the investment.

Effects on the Senior Tranche
On the first possible redemption date for participating banks eight banks decided to exercise their option to redeem their term loan. As a consequence thereof the Senior Notes have been redeemed accordingly on 1 November 2010 in an amount of EUR 106,368,600, equalling 53% of the Senior Notes. The amount derives from the underlying derivative financial instruments and the redeemed loans. On 29 April 2011 Sparebanken Gripen AB (publ) decided to exercise its option to redeem its loan and a principal payment of EUR 441,588 was made. On 2 May 2012 Den Jyske Sparekasse redeemed its loan and paid including principal a sum of EUR 5,117,238. On 1 November 2013 Totalbanken redeemed its loan. The sum of all redemptions is therefore EUR 120,427,426.

After the RA events of Amagerbanken Aktieselskab in February 2011, Fjordbank Mors A/S in June 2011, Max Bank A/S in October 2011, Tønder Bank A/S in November 2012 and Sparekassen Lolland A/S in January 2013 the Senior Tranche had a nominal amount of EUR 16,789,812. This nominal amount is serviced by underlying loans amounting to EUR 12,500,000. The loss for the Senior Notes holders is, subject to any potential recoveries from the defaulted banks participating in ScandiNotes® III, 34.34% of the investment.

Statement for Cell 1 – 2005 (continued)
Effects on the Senior Tranche (continued)

Results and dividends
The results for the year are shown in the income statement on page 23. The Directors do not recommend payment of a dividend in respect of the year ended 31 December 2014 (2013: EUR nil).

(All amounts in EUR thousands unless otherwise stated)

Statement of financial position – Cell 1 – 2005

	Note	As at 31 December 2014	2013 Restated
ASSETS			
Non-current assets			
Loans receivable		-	2,750
Total non-current assets		**-**	**2,750**
Current assets			
Loans receivable		6,116	-
Interest receivable	7	299	86
Other receivable		2	2
Cash and cash equivalents	8	2,171	2,160
Total current assets		**8,588**	**2,248**
Total assets		**8,588**	**4,998**
EQUITY			
Called up share capital	9	1	1
Retained earnings		2,311	2,114
Total equity		**2,312**	**2,115**
LIABILITIES			
Non-current liabilities			
Notes issued	10	-	2,750
Total non-current liabilities		**-**	**2,750**
Current liabilities			
Notes issued	10	6,116	-
Creditors		104	107
Accrued interest	11	56	26
Total current liabilities		**6,276**	**133**
Total liabilities		**6,276**	**2,883**
Total equity and liabilities		**8,588**	**4,998**

The notes on pages 39 to 56 form an integral part of these financial statements

(All amounts in EUR thousands unless otherwise stated)

Income statement – Cell 1 – 2005

	Year ended 31 December	
	2014	**2013 Restated**
Revenue		
Loan interest	427	495
	427	**495**
Expenditure		
Note interest	(63)	(56)
Interest on derivative financial instruments	-	1
Operational expenses	(167)	(194)
	(230)	**(249)**
Operating surplus	**197**	**246**
Realized and unrealized gain/(loss) on notes	(3,366)	4,159
Realized and unrealized gain/(loss) on loans	3,366	(4,159)
	-	**-**
Net result for the year	**197**	**246**

The notes on pages 39 to 56 form an integral part of these financial statements

(All amounts in EUR thousands unless otherwise stated)

Statement of comprehensive income – Cell 1 – 2005

	Year ended 31 December	
	2014	**2013**
Net result for the year	**197**	**246**
Other comprehensive income		
Value adjustments for the year	-	-
Total other comprehensive income	-	-
Total comprehensive income	**197**	**246**
Total comprehensive income for the year is attributable to:		
Shareholders of the cell	197	246
	197	**246**

The notes on pages 39 to 56 form an integral part of these financial statements

(All amounts in EUR thousands unless otherwise stated)

Statement of changes in equity – Cell 1 – 2005

	Called up share capital	Retained earnings	**Total Equity**
Balance at 1 January 2013	**1**	**1,868**	**1,869**
Net result for the year	-	246	246
Balance at 31 December 2013	**1**	**2,114**	**2,115**
Balance at 1 January 2014	**1**	**2,114**	**2,115**
Net result for the year	-	197	197
Balance at 31 December 2014	**1**	**2,311**	**2,312**

The notes on pages 39 to 56 form an integral part of these financial statements

All amounts in EUR thousands unless otherwise stated)

Cash flow statement – Cell 1 – 2005

	Note	Year ended 31 December 2014	2013
Cash flows from operating activities			
Operating result for the year		197	246
(Decrease)/increase in interest receivable		(213)	47
Increase/(decrease) in accrued interest		30	(48)
(Decrease)/increase in creditors		(3)	8
Net cash generated from operating activities		**11**	**253**
Cash flows from investing activities			
Loans repaid		-	3,500
Net cash generated from investing activities		**-**	**3,500**
Cash flows from financing activities			
Repayment of notes		-	(3,500)
Net cash used in financing activities		**-**	**(3,500)**
Net increase in cash and cash equivalents		**11**	**253**
Cash and cash equivalents at the beginning of the year		2,160	1,907
Cash and cash equivalents at the end of the year		**2,171**	**2,160**

The notes on pages 39 to 56 form an integral part of these financial statements

Statement for Cell 1 – 2006

Activities

The principal activity in the cell is the issue of notes and investing in subordinated loans to Danish banks. The net proceeds from the issue of each series of notes are used to acquire subordinated loans. The market for these investments and hence the notes issued by the cell, is limited to sophisticated investors who understand the risks and rewards associated with the unpredictable cash flows arising there from. The cell's notes are listed on the OMX Nordic Exchange Copenhagen.

The fourth cell, Cell 1 – 2006 (ScandiNotes® IV), is like ScandiNotes® I and ScandiNotes® II based on subordinated capital for Danish financial institutions. The issue was launched on 17 November 2006. This issue was divided into three tranches, a Junior Tranche of DKK 300,135,000, a Mezzanine Tranche of DKK 879,571,000 and a Senior Tranche of EUR 170,011,000. The current rating of the ScandiNotes® IV Mezzanine Tranche is Ca and of the ScandiNotes® IV Senior Tranche B3. The cell is at the moment in a wind-down process.

In 2011, the Class C Swap has been terminated in part and the Class B Swap was reset to reflect the loss of cash flow. The interest rate hedging agreements (Class A Swap and Class B Swap) terminated on 17 November 2011. The maturity date of the remaining Floor Transaction was 16 November 2014.

During 2014 all known delegated responsibilities have been complied with. On 17 November 2014 a final payment on the Notes was made.

Effects on the Junior Tranche
Due to the RA events no cash flow is available for the Junior Tranche. The loss for the Junior note holders is, subject to any potential recoveries, 100% of the investment.

Effects on the Mezzanine Tranche
The principal of the Class B Notes Mezzanine Tranche has been reduced from an original notional amount of DKK 879,571,000 to DKK 326,106,930 in 2011 after several RA events. After the default of Tønder Bank A/S in November 2012 the amount left in the Mezzanine Tranche was further reduced to DKK 276,106,930. On 17 May 2013 the Mezzanine Tranche was redeemed down to DKK 160,262,932. On 17 May 2014 the Mezzanine Tranche was redeemed down to DKK 85,262,932. That is the result of a prepayment of the underlying loans. The reduction in principal was shared on a pro-rata basis by the Class B Mezzanine Tranche note holders. The loss for the Mezzanine note holders is thus, subject to any potential recoveries from the defaulted banks participating in ScandiNotes® IV, 68.61% of the investment. After 17 November 2011 interest is payable on a semi-annual basis. On 17 November 2014 the Mezzanine Tranche was finally redeemed down to nil.

Effects on the Senior Tranche
On the first possible redemption date, six participating banks decided to exercise their option to redeem their term loan. As a consequence thereof the Senior Notes were redeemed accordingly on 17 November 2011 in an amount of EUR 145,342,130 equalling 85.49% of the Senior Notes. The amount derives from the underlying derivative financial instruments and the redeemed loans. After 17 November 2011 the Senior Tranche had a nominal amount of EUR 24,668,869 and was again partially redeemed on 19 November 2012 down to EUR 11,276,430. On 17 May 2013 the Senior Tranche was finally redeemed down to nil.

Statement for Cell 1 – 2006 (continued)

Results and dividends

The results for the year are shown in the income statement on page 31. The Directors do not recommend payment of a dividend in respect of the year ended 31 December 2014 (2013: nil).

(All amounts in EUR thousands unless otherwise stated)

Statement of financial position – Cell 1 – 2006

	Note	As at 31 December 2014	2013
ASSETS			
Non-current assets			
Loans receivable		-	17,180
Total non-current assets		**-**	**17,180**
Current assets			
Derivative financial instruments	6	-	511
Interest receivable	7	-	80
Other receivable		-	2
Cash and cash equivalents	8	391	1,999
Total current assets		**391**	**2,592**
Total assets		**391**	**19,772**
EQUITY			
Called up share capital	9	1	1
Retained earnings		285	1,844
Total equity		**286**	**1,845**
LIABILITIES			
Non-current liabilities			
Notes issued	10	-	17,691
Total non-current liabilities		**-**	**17,691**
Current liabilities			
Creditors		105	103
Accrued interest	11	-	133
Total current liabilities		**105**	**236**
Total liabilities		**105**	**17,927**
Total equity and liabilities		**391**	**19,772**

The notes on pages 39 to 56 form an integral part of these financial statements

(All amounts in EUR thousands unless otherwise stated)

Income statement – Cell 1 – 2006

	Year ended 31 December	
	2014	**2013**
Revenue		
Loan interest	396	889
	396	**889**
Expenditure		
Note interest	(912)	(1,062)
Interest on derivative financial instruments	504	484
Operational expenses	(169)	(190)
	(577)	**(768)**
Operating surplus	**(181)**	**121**
Realized and unrealized loss on derivative financial instruments	(512)	(506)
Realized and unrealized loss on notes	(3,800)	(29,098)
Realized and unrealized gains on loans	2,934	29,604
	(1,378)	**-**
Net result for the year	**(1,559)**	**121**

(All amounts in EUR thousands unless otherwise stated)

Statement of comprehensive income – Cell 1 – 2006

	2014	2013
Net result for the year	(1,559)	121
Other comprehensive income		
Value adjustments for the year	-	-
Total other comprehensive income	-	-
Total comprehensive income	**(1,559)**	**121**
Total comprehensive income for the year is attributable to:		
Shareholders of the cell	(1,559)	121
	(1,559)	121

The notes on pages 39 to 56 form an integral part of these financial statements

(All amounts in EUR thousands unless otherwise stated)

Statement of changes in equity – Cell 1 – 2006

	Called up share capital	Retained earnings	**Total Equity**
Balance at 1 January 2013	**1**	**1,723**	**1,724**
Net result for the year	-	121	121
Balance at 31 December 2013	**1**	**1,844**	**1,845**
Balance at 1 January 2014	**1**	**1,844**	**1,845**
Net result for the year	-	(1,559)	(1,559)
Balance at 31 December 2014	**1**	**285**	**286**

(All amounts in EUR thousands unless otherwise stated)

Cash flow statement – Cell 1 – 2006

		Year ended 31 December	
	Note	**2014**	**2013**
Cash flows from operating activities			
Operating result for the year		(181)	121
Decrease in interest receivable		80	165
Decrease in other receivable		2	-
Decrease in accrued interest		(133)	(25)
Increase in creditors		2	8
Net cash (used in)/generated from operating activities		**(230)**	**269**
Cash flows from investing activities			
Loans repaid		20,114	26,807
Net cash generated from investing activities		**20,114**	**26,807**
Cash flows from financing activities			
Repayment of notes		(21,492)	(26,806)
Net cash used in financing activities		**(21,492)**	**(26,806)**
Net (decrease)/increase in cash and cash equivalents		**(1,608)**	**270**
Cash and cash equivalents at the beginning of the year		1,999	1,729
Cash and cash equivalents at the end of the year		**391**	**1,999**

The notes on pages 39 to 56 form an integral part of these financial statements

(All amounts in EUR thousands unless otherwise stated)

Statement of financial position – Non-cellular

	Note	As at 31 December	
		2014	**2013**
ASSETS			
Current assets			
Cash and cash equivalents	8	11	11
Total current assets		**11**	**11**
Total assets		**11**	**11**
EQUITY			
Called up share capital	9	10	10
Retained earnings		1	1
Total equity		**11**	**11**
Total equity and liabilities		**11**	**11**

The notes on pages 39 to 56 form an integral part of these financial statements

(All amounts in EUR thousands unless otherwise stated)

Income statement – Non-cellular

	Note	Year ended 31 December 2014	2013
Revenue			
Loan interest		-	-
		-	**-**
Expenditure			
Note interest		-	-
Interest on derivative financial instruments		-	-
Operational expenses		-	-
		-	**-**
Operating surplus		**-**	**-**
Realized and unrealized gains on derivative financial instruments		-	-
Realized and unrealized gains on loans		-	-
Realized and unrealized gains on notes		-	-
		-	**-**
Net result for the year		**-**	**-**

The notes on pages 39 to 56 form an integral part of these financial statements

(All amounts in EUR thousands unless otherwise stated)

Statement of changes in equity – Non-cellular

	Called up share capital	Retained earnings	**Total Equity**
Balance at 1 January 2013	**10**	**1**	**11**
Profit for the year	-	-	-
Balance at 31 December 2013	**10**	**1**	**11**
Balance at 1 January 2014	**10**	**1**	**11**
Profit for the year	-	-	-
Balance at 31 December 2014	**10**	**1**	**11**

The notes on pages 39 to 56 form an integral part of these financial statements

(All amounts in EUR thousands unless otherwise stated)

Cash flow statement – Non-cellular

	Note	Year ended 31 December 2014	2013
Cash flows from operating activities			
Operating profit for the year		-	-
(Increase)/decrease interest receivable		-	-
(Increase)/decrease other receivable		-	-
Increase/(decrease) accrued interest		-	-
Increase/(decrease) creditors		-	-
Net cash generated from operating activities		**-**	**-**
Cash flows from investing activities			
Loans advanced		-	-
Derivative financial instruments advanced		-	-
Notes advanced		-	-
Net cash generated from investing activities		**-**	**-**
Cash flows from financing activities			
Dividends paid		-	-
Net cash generated financing activities		**-**	**-**
Net (decrease)/increase in cash and cash equivalents		**-**	**-**
Cash and cash equivalents at the beginning of the year		11	11
Cash and cash equivalents at the end of the year		**11**	**11**

The notes on pages 39 to 56 form an integral part of these financial statements

Notes to the financial statements

1. General information

Mare Baltic PCC Limited (the "Company") is a limited liability company registered and domiciled in Guernsey.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by EU ("IFRS") and interpretations issued by the IFRS Interpretations Committee. They give a true and fair view and are in compliance with the Companies (Guernsey) Law, 2008.

The Company's rights and obligations under the swaps are regarded as derivative financial instruments. Under IFRS derivative financial instruments are classified as held for trading and thereby swaps automatically fall within the definition of a financial asset or financial liability at fair value through profit or loss.

In accordance with IAS 39 'Financial Instruments: Recognition and Measurement' the Directors have designated the Company's investment in subordinated loans as a financial asset at fair value through profit or loss. Also, the Directors have designated the Company's notes issued as financial liabilities at fair value through profit or loss. This is to eliminate the accounting mismatch which would otherwise exist between subordinated loans, notes issued and swap transactions which are entered into to eliminate the differences in currency and interest terms of the subordinated loans and notes issued.

The changes in the fair value due to changes in the Company’s own credit risk on loan and credit risk on the notes issued are considered to be immaterial.

Notes to the financial statements (continued)

2. Summary of significant accounting policies (continued)

The International Accounting Standards Board (IASB) has issued a number of international accounting standards that have not yet come into force. Similarly, the IFRS Interpretations Committee has issued a number of interpretations that have not yet come into force.

None of the new standards or interpretations are expected to materially affect the Company's recognition and measurement, and future financial reporting.

2.2 Operating segments

Segment information is presented on the same basis as that used for internal reporting purposes. The segment information is therefore reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker.

The chief operating decision maker, which is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of the Company which makes strategic decisions.

2.3 Going concern

As the Company expects to cease trading and is likely to enter the liquidation process within 12 months the accounts have not been prepared on a going concern basis. The financial statements do not include any provision for the future costs of terminating the business of the Company as the costs are expected to be immaterial. In the opinion of the Directors, the Company’s assets are stated at net realisable value, approximating their fair value.

2.4 Use of estimates

The preparation of financial statements in accordance with IFRS requires management to make judgements, accounting estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the year. Actual results could differ from those estimates.

In particular estimations are applied in the determination of fair values of loans and notes issued, as the notes in the current market are no longer actively traded and the loans have never been traded. The calculation of fair value of the loans has been based on the values of the notes and the value of the derivative financial instruments.

In 2014, the fair value of the notes, as in previous years, is based on a proprietary valuation model based on Monte Carlo simulations where only some of the input can be observed in the market and most of the input is partly or partly not observable. Management's judgement is used to determine the observable input. The unobservable inputs e.g. correlation coefficient, timing of repayment, liquidity/risk premium and probability of default, loss given default have a significant effect on the fair value of the notes.

Notes to the financial statements (continued)

2. Summary of significant accounting policies (continued)

2.5 Protected Cell Company

The Company is a Protected Cell Company in accordance with the provisions of the Companies (Guernsey) Law, 2008. The assets of the Company can be either cellular assets or non-cellular assets. The assets attributable to a cell comprise assets represented by the proceeds of cell share capital, reserves and any other assets attributable to the cell. The non-cellular assets comprise the assets of the Company, which are not cellular assets. Where a liability arises from a transaction in respect of a particular cell, the cellular assets attributable to that cell shall be liable and the liability shall not be a liability of assets attributable to any other cell or of the non-cellular assets unless the Company has entered into a recourse agreement.

2.6 Notes issued

Notes issued are initially recognized at their fair value on the date of issue. The notes are measured at fair value based on valuation models. The gains or losses on the notes do not include the interest expenses of the notes.

2.7 Derivative financial instruments

Derivative financial instruments are stated at fair value, estimated using valuation methods with inputs based on current market data. Realized and unrealized gains and losses on derivative financial instruments are recognized in the income statement.

2.8 Loans receivable

Loans receivable are classified as financial assets at fair value through profit or loss. The loans are initially recognized at fair value on the date of purchase and subsequently at their estimated fair value.

The calculation of fair value of the loans has been based on the values of the notes and the value of the swaps. The gains or losses on the loans do not include the interest income of the loans.

2.9 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

2.10 Functional and reporting currency

The functional currency is EUR for Cell 1 – 2005 and DKK for Cell 1 – 2006. The reporting currency of the Company and the cells are EUR due to some of the notes being denominated in EUR.

Notes to the financial statements (continued)

2. Summary of significant accounting policies (continued)

2.11 Foreign currencies

Monetary assets and liabilities are translated into the functional currency at the rate of exchange ruling at the balance sheet date. Foreign currency transactions are translated into the functional currency at the rate of exchange ruling at the date of transaction. Exchange differences arising on the settlement or revaluation of monetary items, are recognized in the income statement in the year in which they arise.

2.12 Interest income and expenses

Interest income and expenses are recognized on an accruals basis.

2.13 Agent fees

Agent fees are recognized on an accruals basis. The fees payable are amortized to the income statement over the service period, using the linear method.

2.14 Employees

The Company had no employees during the year ended 31 December 2014 (2013: no employees).

3. Prior year adjustment

The loans receivable and notes issued balances have been restated since the issue of the prior year annual report following the identification of errors within the valuation model used to value the loans in Cell 1 – 2005 for the prior year annual report. The error resulted in the prior year balance for both loans receivable and notes payable balances being overstated by EUR 6,473 thousand. The loss on notes and gain on loans were therefore also overstated by EUR 6,473 thousand in the income statement and statement of cash flows.

As the adjustments net out to zero there is no impact on the 2013 net result for the year or the opening reserves for 2014.

Notes to the financial statements (continued)

4. Operating segments

The Company is domiciled in Guernsey. The Company is engaged in a single segment of business, investing in subordinated loans. In presenting information on the basis of a geographical split, investments and derivative financial instruments and the corresponding net investment income arising thereon are determined based on the domicile countries of the respective investment entities and derivative counterparties.

The Board of Directors is determined as constituting the chief operating decision maker of the Company.

As disclosed in the Directors' report on page 4, the Company principally invests in subordinated loans and interest rate swaps

The Company also has a highly diversified investor population and no individual investor is known to own more than 10% of the Notes issued by the Company.

Geographical split based on country of domicile

As disclosed in the Directors' report on pages 4 and 5, ScandiNotes® I, ScandiNotes® II and ScandiNotes® IV are based on subordinated loans for Danish Banks.

ScandiNotes® III is based on subordinated loans for Nordic Institutions, which besides Danish Banks comprised two Icelandic, one Swedish and two Norwegian banks. Events and defaults affecting the asset portfolio in regards to the Icelandic banks are disclosed in the Directors' report on page 7. The subordinated loans to the Swedish and Norwegian banks amounted to respectively nominal nil at 31 December 2014 (2013: nil) as the last remaining loan of EUR 5 million to a Swedish bank was repaid in May 2011. Loan interest in ScandiNotes® III arising from the Swedish bank amounted to nil for 2014 (2013: nil).

Net investment income arising from derivative financial instruments is related to Danish counterparties.

5. Loans receivable (at fair value)

The Company has invested the proceeds from the issue of notes in portfolios of subordinated loans to a number of small and medium sized banks. They pay interest to the Company to fund its obligations to the note holders and obligations under the swap agreements.

The Company has entered into a programme for the issue of limited recourse obligations (the "Programme") whereby the Company may issue notes in series and each such series is separately secured by a charge on assets acquired to fund the Company's payment obligations on each series (the "Collateral"). Therefore, the investments in loan portfolios above are separately pledged as security for the notes issued.

(All amounts in EUR thousands unless otherwise stated)

Notes to the financial statements (continued)

6. Derivative financial instruments

Derivative financial instruments are entered into to match the receivables of the Company with the obligations under the note issue Programme. The interest received from the investments is exchanged with fixed rate interest matching the obligation on the notes.

The terms described are as at 31 December 2014 and some swaps have been terminated partly or fully during the year.

Related risk position	Maturity date	Notional amount	Pay/ receive	Interest %	Fair value 31 December 2014	Fair value 31 December 2013
Cell 1 - 2005						
EUR Liquidity	01/05 2014	EUR 12,500,000	(receive)	0.7210	-	-
Swap	01/05 2015	EUR 12,500,000	(pay)	0.7310		
EUR Liquidity Swaption	01/11 2015	EUR 12,500,000			-	-
Current assets					-	-
Non-current assets					-	-
Current liabilities					-	-
Non-current liabilities					-	-

(All amounts in EUR thousands unless otherwise stated)

Notes to the financial statements (continued)

6. Derivative financial instruments (continued)

Related risk position	Maturity date	Notional amount	Pay/ receive	Interest %	Fair value 31 December 2014	Fair value 31 December 2013
Cell 1 - 2006						
Floor	16/11 2014	DKK 765,000,000	(receive)		-	511
DKK liquidity swap option	17/11 2014	DKK 84,110,898	(receive)		-	-

	2014	2013
Current assets	-	511
Non current assets	-	-
Current liabilities	-	-
Non current liabilities	-	-

Aggregate all cells	2014	2013
Non current assets	-	-
Current assets	-	511
Non current liabilities	-	-
Current liabilities	-	-

(All amounts in EUR thousands unless otherwise stated)

Notes to the financial statements (continued)

7. Interest receivable

	2014	2013
Cell 1 – 2005		
Interest receivable, loans	287	71
Interest receivable, derivative financial instruments	12	15
	299	**86**
Cell 1 – 2006		
Interest receivable, loans	-	80
Interest receivable, derivative financial instruments	-	-
	-	**80**
	299	**166**

8. Cash and cash equivalents

	2014	2013
Cell 1 – 2005		
Royal Bank of Scotland International Guernsey	1	1
Nordea-Denmark	2,170	2,159
	2,171	**2,160**
Cell 1 – 2006		
Royal Bank of Scotland International Guernsey	1	1
Nordea-Denmark	390	1,998
	391	**1,999**
Non-cellular		
Royal Bank of Scotland International Guernsey	11	11
	11	**11**
	2,573	**4,170**

(All amounts in EUR thousands unless otherwise stated)

Notes to the financial statements (continued)

9. Called up share capital

	2014	2013
Cell 1 – 2005		
1,000 ordinary shares of EUR 1 each	1	1
Cell 1 – 2006		
1,000 ordinary shares of EUR 1 each	1	1
Non-cellular		
10,000 ordinary shares of EUR 1 each	10	10
	12	**12**

The authorized share capital comprises 200,000 ordinary shares of EUR 1 each.

All shares belong to same class of shares and have the same rights.

The Company is a Protected Cell Company and has no specific capital requirements.

(All amounts in EUR thousands unless otherwise stated)

Notes to the financial statements (continued)

10. Notes issued

	2014		**2013 Restated**	
	Notional amount/left in tranche 31 December	Fair value	Notional amount/left in tranche 31 December	Fair value
Cell 1 – 2005				
Series 2015-1 EUR ScandiNotes® III 2.753 % limited recourse secured asset backed notes due 2015 (senior)	EUR’000 16,790	6,116	EUR’000 16,790	2,750
Series 2015-1 DKK ScandiNotes® III 2 % limited recourse secured asset backed notes due 2015 (mezzanine)	DKK’000 -	-	DKK’000 -	-
Series 2015-1 DKK ScandiNotes® III 2 % (2007) 0.22362 (2008) limited recourse secured asset backed notes due 2015 (junior)	DKK’000 -	-	DKK’000 -	-
		6,116		**2,750**

(All amounts in EUR thousands unless otherwise stated)

Notes to the financial statements (continued)

10. Notes issued (continued)

	2014		2013	
	Notional amount/left in tranche 31 December	Fair value	Notional amount/left in tranche 31 December	Fair value
Cell 1 – 2006				
Series 2006-1 DKK ScandiNotes® IV 3 % limited recourse secured asset backed notes due 2014 (junior)	DKK'000		DKK'000	
	-	-	-	-
Series 2006-1 DKK ScandiNotes® IV 3 % limited recourse secured asset backed notes due 2014 (mezzanine)	DKK'000		DKK'000	
	-	-	160,263	17,691
Series 2006-1 EUR ScandiNotes® IV 3.843 % limited recourse secured asset backed notes due 2014 (senior)	EUR'000		EUR'000	
	-	-	-	-
		-		**17,691**
Aggregate all cells		**6,116**		**20,441**

(All amounts in EUR thousands unless otherwise stated)

Notes to the financial statements (continued)

10. Notes issued (continued)

The Company has entered into a Secured Note Programme whereby the Company issues notes in series and each such series is secured by a charge on, or assignment of, interests in certain financial instruments or investments. The maximum aggregate principal amount of all notes issued by the Company pursuant to the Programme shall not exceed EUR 1,000,000,000 or its equivalent in other currencies at the time of issue.

In connection with the notes issued under the Programme, the Company has agreed to an ISDA Master Agreement made with HSH Nordbank AG.

Under this Master Agreement a number of Swap Agreements have been entered into all for the purpose of exchanging interest received by the Company into fixed rate interest for servicing the notes. The recourse of holders of the notes against the Company is limited to amounts properly received from the portfolio.

The scheduled redemption amount per note in issue will be par face value at the scheduled redemption date of the notes; it will exactly match the redemption amount per note when the derivative financial instruments are terminated. The Company's notes are listed on the OMX Nordic Exchange Copenhagen.

11. Accrued interest

	2014	**2013**
Cell 1 – 2005		
Interest payable, notes	44	10
Interest payable, derivative financial instruments	12	16
	56	**26**
Cell 1 – 2006		
Interest payable, notes	-	133
	-	**133**
Aggregate all cells	**56**	**159**

Notes to the financial statements (continued)

12. Taxation

The Company is taxed in Guernsey at the standard rate of 0%.

13. Parent company

The Company is owned by the Mare Baltic Charitable Trust.

14. Financial instruments

As stated in the Directors' Report the principal activity of the Company is limited to the issue of collateralized notes in series. The proceeds from the issue of each series of notes are used to acquire interest carrying assets or similar investments. Therefore, the role of financial assets and financial liabilities is central to the activities of the Company, and the issue of notes provided the funding to purchase the Company's financial assets.

Financial assets and liabilities provide the majority of the assets and liabilities of the Company along with all of the income.

As well as the purchase of investments and the issue of notes, the Company has also entered into derivative financial instruments, as detailed in note 5, to hedge the interest rate and currency risk associated with the potential mismatch between the capital returns from the investments and the obligations under the notes.

The strategies used by the Company in achieving its objectives regarding the use of its financial assets and liabilities were set when the Company entered into the transactions. The Company has attempted to match the properties of its financial liabilities to its assets to avoid significant elements of risk generated by mismatches of investment performance against its obligations, together with any maturity or interest rate risk. Cash flow within each cell is set up as a waterfall structure where Senior Tranches are serviced before Mezzanine and Junior Tranches. RA events result in changes in the expected cash flow to the notes issued. Maturity of the derivative financial instruments and notes are disclosed in note 5 and 9.

As disclosed in note 2, the Company's derivative financial instruments are regarded as held for trading and the investments and the notes in issue as at the balance sheet date have been designated as financial asset/liabilities at fair value through profit or loss.

The values of the derivative financial instruments are calculated on the basis of a model that takes into account, inter alia, the key input of yield curves.

Notes to the financial statements (continued)

14. Financial instruments (continued)

14.1 Interest rate risk

The Company primarily finances its operations through the issue of notes upon which 2% and 3% coupons are payable. The Directors believe that there is no significant net interest rate risk to the Company as the interest rate risk is fully hedged.

14.2 Currency risk

Virtually all of the Company's financial assets and liabilities are denominated in matching currencies. Any differences have been covered by derivatives contracts entered with third parties. Consequently, the Directors believe that there is no material currency risk to the Company.

14.3 Credit risk and counterparty risk

Credit risk is the risk of default by the loan debtors and derivative financial instruments counterparty (HSH Nordbank AG). The terms of the notes allow a full offset of such losses. The Directors believe that there is no net credit risk to the Company since its obligations to the note holders are limited to the amounts due and receivable from the investment and the derivative financial instruments agreement secured as collateral for the notes. The Company therefore has no net exposure to any non-performing financial agreements.

The Company's credit risk on deposits with banks and financial institutions is limited because the counter-parties are banks with high credit ratings assigned by international credit rating agencies.

14.4 Credit spread risk

The Directors believe that there is no net credit spread risk to the Company since its obligations to the note holders are limited to the amounts due and receivable from the investments and the derivative financial instruments agreement secured as collateral for the notes and both the loans and notes are not traded and prices cannot be observed.

(All amounts in EUR thousands unless otherwise stated)

Notes to the financial statements (continued)

14. Financial instruments (continued)

14.5 Categories of financial instruments (Aggregated)

	2014		2013	
	Carrying amount	Fair Value	Carrying amount Restated	Fair Value Restated
Loans receivable	6,116	6,116	19,930	19,930
Derivative financial instruments	-	-	511	511
Financial assets measured at fair value via the income statement	6,116	6,116	20,441	20,441
Interest receivables	299	299	166	166
Other receivables	2	2	4	4
Cash and cash equivalents	2,573	2,573	4,170	4,170
Loans and receivables	2,874	2,874	4,340	4,340
Notes	6,116	6,116	20,441	20,441
Derivative financial instruments	-	-	-	-
Financial liabilities measured at fair value via the income statement	6,116	6,116	20,441	20,441
Creditors	209	209	210	210
Accrued interest	56	56	159	159
Financial liabilities measured at amortised cost	265	265	369	369

(All amounts in EUR thousands unless otherwise stated)

Notes to the financial statements (continued)

14. Financial instruments (continued)

14.6 Fair value hierarchy (Aggregated)

	2014			
	Quoted prices (level 1)	Obser-vable inputs (level 2)	Non-observable inputs (level 3)	Total
Financial assets				
Loans receivable	-	-	6,116	6,116
Derivative financial instruments	-	-	-	-
Total financial assets	-	-	6,116	6,116
Financial liabilities				
Notes	-	-	6,116	6,116
Derivative financial instruments	-	-	-	-
Total financial liabilities	-	-	6,116	6,116

(All amounts in EUR thousands unless otherwise stated)

Notes to the financial statements (continued)

14. Financial instruments (continued)

14.6 Fair value hierarchy (Aggregated) (continued)

	2013 restated			
	Quoted prices (level 1)	Obser-vable inputs (level 2)	Non-observable inputs (level 3)	Total
Financial assets				
Loans Receivables	-	-	19,930	19,930
Derivative financial Instruments	-	511	-	511
Total financial Assets	-	511	19,930	20,441
Financial liabilities				
Notes	-	-	20,441	20,441
Derivative financial Instruments	-	-	-	-
Total financial Liabilities	-	-	20,441	20,441

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Inputs for the asset or liability that are not based on observable market data.

If one or more of the not observable inputs are changed to other reasonably possible alternatives, the fair value of the notes and loans receivable may change significantly but there will be no impact on the net result in the income statement due to the structure of the cells and the terms of the notes issued.

Transfers between Levels are applied at the end of the period.

(All amounts in EUR thousands unless otherwise stated)

Notes to the financial statements (continued)

14. Financial instruments (continued)

14.7 Financial instruments based on non-observable inputs (Aggregated)

	2013 Restated	
	Financial assets (level 3)	Financial liabilities (level 3)
Opening at 1 January 2013	24,792	25,808
Gains and losses recognised in income statement	25,445	24,939
Loans repaid	(30,306)	-
Repayment of notes	-	(30,306)
Currency adjustment	(1)	-
Closing at 31 December 2013	19,930	20,441

	2014	
	Financial assets (level 3)	Financial liabilities (level 3)
Opening at 1 January 2014	19,930	20,441
Gains and losses recognized in income statement	6,300	7,167
Loans repaid	(20,114)	-
Repayment of notes	-	(21,492)
Currency adjustment	-	-
Closing at 31 December 2014	6,116	6,116

Gains and losses have been recognised in the income statement under realized and unrealized gains and losses on notes and loans.

There have been no transfers in or out of Level 3 during the year.

The fair value of financial instruments is significantly affected by the non-observable inputs used. The key assumptions may change as market conditions change.

A sensitivity analysis by making a parallel shift of +/- 10% of the probability of default for participating banks shows that the financial assets and financial liabilities will decline by approximately EUR 0.5 million or increase by approximately EUR 0.5 million at 31 December 2014.

15. Events after the balance sheet date

No events after the balance sheet date.