

# MARE BALTIC PCC LIMITED 2006-1

## Static Cash CLO / Europe

*This pre-sale report addresses the structure and characteristics of the proposed transaction based on the information provided to Moody's as of 31 October 2006. Investors should be aware that certain issues concerning this transaction have yet to be finalised. Upon conclusive review of all documents and legal information as well as any subsequent changes in information, Moody's will endeavour to assign definitive ratings to this transaction. The **definitive** ratings may differ from the **provisional** ratings set forth in this report. Moody's will disseminate the assignment of definitive ratings through its Client Service Desk. This report does not constitute an offer to sell or a solicitation of an offer to buy any securities, and it may not be used or circulated in connection with any such offer or solicitation.*

### Estimated Closing Date

November 2006

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## PROVISIONAL (P) RATINGS

Class	Rating	Amount (million)	% of Notes	Legal Final Maturity	Coupon
A	(P) <b>Aaa</b>	€[169.95]	[51.7]%	11/2014	EUR 3m + [·]%
B	(P) <b>Baa2</b>	DKK[883.886]	[36.0]%	11/2014	[3]%
C	NR	DKK[300.916]	(12.3)%	11/2014	[3]%

*The ratings address the expected loss posed to investors by the legal final maturity. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.*

## OPINION

### Strengths of the Transaction

- The repackaged assets are of a relatively high credit quality
- The portfolio diversity provided by the regional distribution of the Danish banks
- There is substantial subordination below the Class A tranche

### Weaknesses and Mitigants

- There is limited diversity in the underlying portfolio and the repackaged assets have the status of subordinated capital; however, these features were accounted for in the portfolio default simulations and the conservative recovery rates assumed in the Moody's rating analysis.
- Investors face a significant exposure to HSH Nordbank (**A1**) through its agent roles; this is mitigated by the low credit risk posed by the institution and various provisions within the documents to protect investors in the event of deterioration in the bank's credit rating.
- The B notes and to a lesser degree the A notes will be exposed to a degree of interest rate risk should the interest rate swaps be reset during an higher interest rate environment. This is mitigated by the fact that the swaps will only be reset should defaults on the underlying assets occur and the fact that various interest rate scenarios were considered in our analysis.
- Both notes will be exposed to FX risk should EUR strengthen against DKK in years 5-8 of their life. The risk is mitigated by strong probability that the notes will be redeemed after 5 years and a Currency hedge that provided limited protection against this risk. Various FX scenarios were also considered in our analysis.



## STRUCTURE SUMMARY

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Issuer:	Mare Baltic PCC Limited
Jurisdiction of Issuer:	Guernsey
Series:	2006-1 Cell
Structure Type:	Cash CLO
Specified Currency:	Euro & Danish Kronner
Interest Payments:	3 months EURIBOR + [·]% to the Class A Notes, paid quarterly and [3.00]% to the Class B Notes, paid annually in each year up to and including the Interest Payment date in November 2014.
Principal Payments:	The Issuer will make principal payments to partially redeem the Notes on each Interest Payment Date falling on or after November 2011 to the extent that it has received principal repayments from the Borrowers under the repackaged assets or a final payment under the Hedging Agreement. Such amounts of principal will be applied first to repay the Class A Notes, then to the Class B Notes and finally to the Class C Notes.
Term:	The Issuer has a call option on the bond at par in November 2011 (5 years) and on each interest payment date thereafter until the final maturity date in November 2014. One or more of the underlying assets can prolong until November 2014 based on higher interest rates and amended conditions.
Seniority:	The Class A Notes will be senior to the Class B 3% Limited Recourse Secured Mezzanine Notes due 2011/2014 and to the Class C 3% Limited Recourse Secured Junior Notes due 2011/2014.
Trustee:	Law Debenture Trust Corporation p.l.c.
Arranger, Dealer, Paying Agent, Issue Agent, VP Agent, Custodian, Listing Agent:	HSH Nordbank AG, Copenhagen Branch <b>(A1/P-1)</b>

## COLLATERAL SUMMARY

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Number of Borrowers:	21
Type of Equipment:	Subordinated Term Loans
Interest payments:	Semi-annual
Maturity:	2014
Geographic Diversity:	Danish banks (100%)

## PORTFOLIO

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<b>Borrower</b>	<b>Nominal amount (DKK)</b>	<b>Domicile</b>
Sparekassen Sjælland	200.00	Denmark
Sparbank Vest	200.00	Denmark
Forstædernes Bank	200.00	Denmark
Amagerbanken	200.00	Denmark
Roskilde Bank	200.00	Denmark
Spar Nord	200.00	Denmark
Fionia	150.00	Denmark
Max Bank	100.00	Denmark
Djurslands Bank	100.66	Denmark
Ebh Bank	75.00	Denmark
Østjydsk Bank	75.00	Denmark
Sparekassen Farsø	50.00	Denmark
Sparekassen Østjylland	50.00	Denmark
DiBa Bank	75.00	Denmark
Nordfyns Bank	50.00	Denmark
Tønder Bank	50.00	Denmark
Vestfyns Bank	50.00	Denmark
Morsø Bank	30.00	Denmark
Skælskør Bank	25.00	Denmark
Totalbanken	25.00	Denmark
SparTrelleborg	200.00	Denmark
<b>Total</b>	<b>2,305,658,700</b>	

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***Static cash CLO of term loans to a portfolio of Danish commercial and savings banks.***

## OVERVIEW

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The issuer of the Notes, Mare Baltic PCC Limited (“Mare Baltic” or the “Issuer”) was established on 31 January 2003 under a €1,000,000,000 Structured Note Programme. The Issuer is incorporated as a protected cell company with limited liability in Guernsey.

The ratings are based primarily on the following:

- The characteristics of the repackaged assets;
- The subordination provided by the mezzanine and junior tranches;
- The performance of the Notes in relation to various default, interest rate and fx rate scenarios and related stress-test analyses; and
- The governing legal structure.

The payment of principal and interest on the Notes is linked to and wholly dependent upon the Issuer receiving payments in respect of loans made to 21 Danish commercial and savings banks, which were acquired by the Issuer, and upon payments being received by the Issuer from the Hedging Counterparty in respect of the Hedging Agreement.

## STRUCTURAL AND LEGAL ASPECTS

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### **EUR Senior and “Fixed Rate” Junior Notes secured by “Floating Rate” DKK Assets**

Various swaps have been employed to enable the issuance of EUR senior notes and discounted fixed rate junior notes backed by floating DKK assets. A, B & C swaps relating to the A, B & C notes have been traded with HSH Noordbank under which Mare Baltic PCC Limited (Issuer) swaps cashflows received on the underlying portfolio of loans in exchange for amounts due under the notes. Should any of the underlying loans suffer a “RA Event” the swaps will be reset to account for the change in funds generated on the portfolio of loans and the Notes will be written down accordingly. Resetting of the swaps will take into consideration current market interest rates. RA Events will lead to writedowns on the C Notes before the B Notes before the A Notes. A “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 due under the Repackaging Assets (after the 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.

## MOODY’S ANALYSIS

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***Moody’s analysed a cash flow model of the deal structure to measure the expected loss on the Notes.***

Moody’s quantitative analysis of this transaction is based on a cash flow model of the structure. Essentially, cash flows arising from the repackaged assets and related hedge agreements were generated and distributed according to the waterfall of payments. Defaults on the portfolio were simulated by means of a Monte Carlo simulation. The impact of several correlation and recovery rate assumptions were tested during the rating analysis. Interest rates and FX rates were also simulated by a mean reverting process. By repeating the process of generating cash flows and averaging over a large number of simulations, an estimate of the expected loss borne by the note holders was derived.

## RATING SENSITIVITIES AND MONITORING

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Moody’s will monitor the transaction on an ongoing basis to ensure that it continues to perform in the manner expected, including checking all supporting ratings and reviewing periodic servicing reports. Any subsequent changes in the rating will be publicly announced and disseminated through Moody’s Client Service Desk.



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