

**SERIES B EURO-DM SECURITIES LIMITED**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

**SERIES B EURO-DM SECURITIES LIMITED**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

<b>Contents</b>	<b>Page</b>
Report of the Directors	1-2
Independent Auditor's report	3
Statement of financial position	4
Statement of comprehensive income	5
Statement of changes in net assets attributable to equity holders	6
Statement of cash flows	7
Notes to the financial statements	8-13

# **SERIES B EURO-DM SECURITIES LIMITED**

## **REPORT OF THE DIRECTORS**

The directors submit their report and the audited financial statements for the year ended 31st December 2011.

### **INCORPORATION**

Series B Euro-DM Securities Limited (the "Company") was incorporated in Jersey, Channel Islands, on 28th February 1986.

### **ACTIVITIES**

The Company holds a thirty year Schuldschein issued by the Bundesbahn (German Federal Republic Railway). The purchase of the Schuldschein has been financed from the net proceeds on the issue of Zero-Coupon Deutsche Mark Bearer Bonds and the sale of a portion of the interest receivable under the Schuldschein.

### **RESULTS**

The results for the year are shown in the Statement of Comprehensive Income on page 5.

### **DIVIDEND**

The directors do not recommend the payment of a dividend in respect of the year (2010 NIL).

### **DIRECTORS' RESPONSIBILITIES**

The Directors are responsible for preparing financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRS").

Companies (Jersey) Law 1991 requires the Directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the company and the profit and loss for that year.

In preparing those financial statements the directors should:

- \* select suitable accounting policies and then apply them consistently;
- \* make judgements and estimates that are reasonable and prudent;
- \* state whether applicable accounting standards have been followed, subject to any material departures as disclosed and explained in the financial statements;
- \* prepare the financial statements on the going concern basis (unless it is inappropriate to presume that the Company will continue in business).

The Directors confirm they have complied with all the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. 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.

So far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### **STATEMENT OF PERSONS RESPONSIBLE WITHIN THE ISSUER**

With regard to Regulation 2004/109/EC of the European Union (the "EU Transparency Directive"), the Directors of the Company confirm to the best of their knowledge that the Financial Statements for the year end give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company as required by the applicable accounting standards. The Report of the Directors gives a fair review of the development of the Company's business, financial position and the important events that have occurred during the financial year and their impact on the Financial Statements. The principal risks and uncertainties faced by the Company are disclosed in the notes of these Financial Statements.

**SERIES B EURO-DM SECURITIES LIMITED**

**REPORT OF THE DIRECTORS (continued)**

**DIRECTORS**

The directors of the Company who served during the year and subsequently were as follows:

S P Harvey

J P Le Maistre

**SECRETARY**

Lloyds TSB (Jersey) Management Limited acted as Secretary throughout the year.

**REGISTERED OFFICE**

11-12 Esplanade  
St Helier  
Jersey  
JE4 8PH  
Channel Islands

**ADMINISTRATOR**

EES Trustees International Limited (resigned 26 January 2012)  
Queensway House  
Hilgrove Street  
St Helier  
JE1 1ES  
Channel Islands

Lloyds TSB Offshore Trust Company (appointed 26 January 2012)  
11-12 Esplanade  
St Helier  
Jersey  
JE4 8PH  
Channel Islands

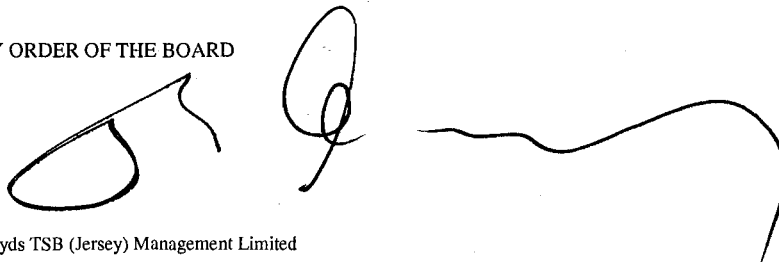
**PAYING AGENT**

Commerzbank AG  
Mainzer Landstraße 151  
60327 Frankfurt am Main  
Frankfurt  
Germany

**AUDITORS**

PricewaterhouseCoopers CI LLP acted as auditors during the year and have expressed their willingness to continue in office.

BY ORDER OF THE BOARD



Lloyds TSB (Jersey) Management Limited

Dated 26.4.2012

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF**  
**SERIES B EURO-DM SECURITIES LIMITED**

**Report on the financial statements**

We have audited the accompanying financial statements of Series B Euro - DM Securities Limited (the "Company") which comprise the Statement of financial position as of 31 December 2011 and the statement of comprehensive income, statement of changes in net assets attributable to equity holders and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

**Directors' responsibility for the financial statements**

The directors are responsible for the preparation of financial that give a true and fair view in accordance with International Financial Reporting Standards and with the requirements of Jersey law. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

**Report on other legal and regulatory requirements**

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Report of the Directors.

In our opinion the information given in the Report of the Directors is consistent with the financial statements.

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 113A of the Companies (Jersey) Law 1991 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

  
Michael Byrne

For and on behalf of PricewaterhouseCoopers CI LLP  
Chartered Accountants and Recognized Auditor  
Jersey, Channel Islands

27 April 2012

**SERIES B EURO-DM SECURITIES LIMITED**

**STATEMENT OF FINANCIAL POSITION**

**AS AT 31ST DECEMBER 2011**

(Expressed in Euro '000s unless otherwise stated)

	NOTES	€ 000s	
		2011	2010
<b>ASSETS</b>			
<b>Non-current assets</b>			
Held to maturity financial assets	3	301,679	283,727
Prepaid expenses	4	55	68
		<u>301,734</u>	<u>283,795</u>
<b>Current assets</b>			
Receivable from related party		24	16
Cash and cash equivalents		2	-
<b>TOTAL ASSETS</b>		<u><u>301,760</u></u>	<u><u>283,811</u></u>
<b>EQUITY</b>			
<b>Capital and reserves (attributable to the company's equity holders)</b>			
Ordinary share capital	6	5	5
Accumulated losses		(88)	(101)
<b>TOTAL EQUITY</b>		<u>(83)</u>	<u>(96)</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Financial liabilities at amortised cost	5	301,822	283,896
<b>Current liabilities</b>			
Trade payable and accrued expenses		21	11
<b>TOTAL LIABILITIES</b>		<u>301,843</u>	<u>283,907</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><u>301,760</u></u>	<u><u>283,811</u></u>

The financial statements on pages 4 to 13 were approved by the Board of directors on <sup>26.4</sup>.....2012  
and are signed on its behalf by:

Director .....

Director .....

The notes on pages 8 to 13 form an integral part of these financial statements

**SERIES B EURO-DM SECURITIES LIMITED**

**STATEMENT OF COMPREHENSIVE INCOME**

**FOR THE YEAR ENDED 31ST DECEMBER 2011**

(Expressed in Euro '000s unless otherwise stated)

		<u>€ 000s</u>	
	<u>NOTES</u>	<u>2011</u>	<u>2010</u>
<b>INCOME</b>			
Interest income	3	17,952	16,917
<b>EXPENSES</b>			
Secretarial fee		6	7
Accountancy fee		2	2
Audit fee		6	2
Exempt company fee		-	1
		<u>14</u>	<u>12</u>
Less: Reimbursement		<u>(14)</u>	<u>(12)</u>
Operating profit		17,952	16,917
<b>FINANCE COSTS</b>			
Amortisation charge	5	17,926	16,895
Prepaid expenses	4	13	13
		<u>17,939</u>	<u>16,908</u>
<b>INCREASE IN NET ASSETS ATTRIBUTABLE TO EQUITY HOLDERS</b>		<u>13</u>	<u>9</u>

The notes on pages 8 to 13 form an integral part of these financial statements

**SERIES B EURO-DM SECURITIES LIMITED**

**STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO EQUITY HOLDERS**

**FOR THE YEAR ENDED 31ST DECEMBER 2011**

(Expressed in Euro '000s unless otherwise stated)

	Share Capital	Accumulated Losses	Total Equity
Balance at 1 January 2010	5	(110)	(105)
Increase in net assets attributable to equity holders	-	9	9
<b>Balance at 31 December 2010</b>	<b>5</b>	<b>(101)</b>	<b>(96)</b>

	Share Capital	Accumulated Losses	Total Equity
Balance at 1 January 2011	5	(101)	(96)
Increase in net assets attributable to equity holders	-	13	13
<b>Balance at 31 December 2011</b>	<b>5</b>	<b>(88)</b>	<b>(83)</b>

The notes on pages 8 to 13 form an integral part of these financial statements



**SERIES B EURO-DM SECURITIES LIMITED**

**STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED 31ST DECEMBER 2011**

(Expressed in Euro '000s unless otherwise stated)

	<u>NOTES</u>	<u>€ 000s</u>	
		<u>2011</u>	<u>2010</u>
<b>Cash flows from operating activities</b>			
Cash flows from operating activities		2	-
Cash used in operations		-	-
<b>Net cash generated from operating activities</b>		-	-
<b>Cash flows from financing activities</b>			
Redemption of bearer bonds		-	-
<b>Net cash used in financing activities</b>		-	-
<b>Net increase / (decrease) in cash and cash equivalents</b>		-	-
<b>Cash and cash equivalents at beginning of year</b>		-	-
<b>Cash and cash equivalents at end of the year</b>		<u>2</u>	<u>-</u>

**RECONCILIATION OF INCREASE IN NET ASSETS ATTRIBUTED TO EQUITY HOLDERS**

**TO CASH FLOWS FROM OPERATING ACTIVITIES**

	<u>NOTES</u>	<u>€ 000s</u>	
		<u>2011</u>	<u>2010</u>
<b>Increase in net assets attributable to equity holders</b>		13	9
Adjustments for:			
Interest income at effective interest rate	3	(17,952)	(16,917)
Amortisation on discount on bearer bonds at effective interest rate	5	17,926	16,895
Changes in working capital:			
(Increase) / decrease in receivable from related party		(8)	-
Increase / (decrease) in trade payable and accrued expenses		10	-
Decrease in prepaid expenses		13	13
<b>Cash flows from operating activities</b>		<u>2</u>	<u>-</u>

The notes on pages 8 to 13 form an integral part of these financial statements

**SERIES B EURO-DM SECURITIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31ST DECEMBER 2011**

**1 ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all periods presented unless otherwise stated.

**1.1 Going Concern**

Although there is a negative equity position as at 31 December 2011, in the Directors' opinion the Company is still considered to be a going concern as the Company is able to meet its liabilities as they fall due for the next 12 months and in accordance with an undertaking dated 2nd July 1986, Commerzbank AG as promoters of the issue of Zero Coupon Deutsche Mark bearer bonds described in note 7, have agreed to reimburse the Company for all expenses incurred. The expenses and corresponding reimbursement are shown in the Statement of Comprehensive Income.

**1.1.2 Basis of preparation**

These financial statements have been prepared under the historical cost convention and in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, issued by International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC).

The Company has acquired a Schuldschein issued by the Bundespost (German Federal Republic Post Office) from Commerzbank AG, funded by the proceeds of the Zero Coupon Deutsche Mark bearer bonds. The bonds are issued with a maturity date corresponding to the payment date on the Schuldschein loan. The Company neither has, nor will have, any other significant assets or liabilities and has covenanted not to enter into any other transactions except in connection with the Schuldschein.

It should be noted that the terms of issue of the Deutsche Mark bearer bonds and certain of the agreements contain provisions that if changes are made before the final redemption date of the Schuldschein then the calculation of the amounts due is on the basis set out in such terms.

These financial statements have been prepared keeping in view that the transactions mentioned in the previous paragraphs are not separable. Total income arising from the Schuldschein and total expenses incurred on the financial liabilities (excluding the expenses pertaining to redemption of such liabilities) are recognised in the income statement during the terms of the Schuldschein and Deutsche Mark bearer bonds respectively so as to produce a constant rate of return over their term.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 1.2

**a) Standards, amendment and interpretations effective in 2011**

- IAS 24, 'Related party disclosures', clarifies the definitions of a related party.
- IFRS 7, (amendment) 'Financial instruments: Disclosures', the amendment emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments.

There have been no new standards or amendments to existing standards which are effective 1 January 2011 and applicable to the Company.

**b) Standards, amendments and interpretations to existing standards that are not yet effective for the financial year beginning 1 January 2011 and have been early adopted by the Company**

The Company has not early adopted any standards or interpretations.

**c) Standards, amendments and interpretations issued but not yet effective for the financial year beginning 1 January 2011 and have not been early adopted by the Company.**

- IFRS 9, 'Financial instruments', effective for annual periods beginning on or after 1 January 2015, specifies how an entity should classify and measure financial assets and liabilities, including some hybrid contracts.
- IFRS 12, 'Disclosures of interest in other entities', effective for annual periods beginning on or after 1 January 2013, includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.
- IFRS 13, 'Fair value measurement', effective for annual periods beginning on or after 1 January 2013, has been early adopted. The standard improves consistency and reduces complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs.

There are no other standards, interpretation or amendments to existing standards that are not yet effective that would be expected to have a significant impact on the Company.

## **SERIES B EURO-DM SECURITIES LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

#### **FOR THE YEAR ENDED 31ST DECEMBER 2011 (continued)**

#### **1 ACCOUNTING POLICIES (continued)**

##### **1.2 Critical Accounting Estimates and Judgements**

Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under circumstances.

##### **1.2.1 Critical Accounting Estimates and Assumptions**

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year

##### **a) Amortised cost of investment in Schuldschein and Deutsche Mark bearer bonds**

The amortised cost of the Schuldschein and Deutsche Mark bearer bonds are calculated using the estimated effective interest rate. Effective interest rate was calculated based throughout the life of the Schuldschein and bearer bonds. The Company used its best judgement in estimating on the estimated cash inflows and cash outflows the cash flows for the calculation of effective interest rate. The amortised cost of the Schuldschein and Deutsche Mark bearer bonds would be over or under estimated were the cash flows used to calculate the effective interest rate were to differ from the management estimates.

##### **1.2.2 Critical judgements in applying the accounting policies**

##### **a) Impairment of held to maturity financial assets**

The Company follows the guidance of IAS 39 to determine when a held to maturity financial asset is impaired.

The determination requires significant judgement. In making this judgement, the Company evaluates, among other factors, the financial health and business outlook of the investee including factors such as industry and sector performance, changes in operational and financing cash flow.

In accordance with IAS 39, the Company assesses at each balance sheet date whether there is any objective evidence of impairment; the determination requires significant judgement. In making this judgement, the Company evaluates among other factors, the financial health and business outlook of the investee (Federal Republic of Germany) including factors such as industry and sector performance, changes in operational and financing cash flow.

The Directors of the Company have a duty to review the impairment for the year ended 31 December 2011 in accordance with International Financial reporting Standards (IFRS), and to conclude whether the Company would suffer an additional charge for impairment.

The Directors of the Company are of the opinion that the investment is not currently impaired, although they propose to continue to monitor the situation, given the current adverse economic conditions.

##### **1.3 Financial assets and liabilities held at amortised cost**

##### **1.3.1 Classification**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the management has the positive intention and ability to hold to maturity. The Company has designated its investment in the Schuldschein as held-to-maturity investments, as the Company has the positive intention and ability to hold the investment in the Schuldschein to its maturity. Financial liabilities arise when the Company has a contractual obligation to deliver cash or other financial assets to another entity. The Deutsche Mark bearer bonds issued by the Company are designated as other liabilities carried at amortised cost.

##### **1.3.2 Recognition and measurement**

IAS 39, Financial Instruments: Recognition and Measurement, requires held-to-maturity financial assets and financial liabilities at amortised cost to be measured on initial recognition at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. The investment and financial liabilities of the Company are initially recorded at cost.

However, this departure has no material effect on the carrying value of investment or the financial liability as the management estimates that the cost of the financial assets and financial liabilities approximated to their fair values at the time of the initial recognition.

##### **1.3.3 Derecognition of financial assets and financial liabilities**

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or the Company has transferred substantially all risks and rewards of ownership.

**SERIES B EURO-DM SECURITIES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31ST DECEMBER 2011 (continued)**

**1 ACCOUNTING POLICIES (continued)**

**1.3.4 Fair value estimation**

The fair value of financial assets and liabilities that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Valuation techniques used include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs. See note 3 and note 5 for fair value estimation.

**1.4 Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

**1.4.1 Functional and presentation currency**

The Company has adopted the Euro ("EURO") as its presentation and functional currency, as the Company's primary activity is to invest in EURO denominated securities. The Company has no exposure to currency on its investment, and only minimal exposure to Pound Sterling ("GBP") and United States Dollar ("USD") on its payables and receivables.

**1.4.2 Transactions and balances**

Transactions denominated other than EUR have been translated to EUR at the exchange rate ruling at the date of the transaction. Monetary items on the balance sheet have been translated to EUR at the exchange rate ruling at the year end. Foreign currency gains and losses on such transactions are recognised in the Statement of Consolidated Income.

**1.5 Income**

Income, which includes interest income and discount on the Schuldschein, is recognised in the Statement of Comprehensive Income using the effective interest rate method over the term of the Schuldschein.

**1.6 Amortisation charge**

Discount on Deutsche Mark bearer bonds is amortised through the Statement of Comprehensive Income over the life of the total liability using the effective interest rate method.

**1.7 Issue costs**

Costs necessarily incurred in relation to the issue of the Deutsche Mark bearer bonds are classified as transaction costs. These transaction costs are subsequently amortised through the Statement of Comprehensive Income using the effective interest rate method over the life of the related liability. Any unamortised transaction costs are presented by way of netting from the related liability to which they pertain.

**1.8 Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

**1.9 Administration expenses**

The Company had engaged the services of Computershare to provide administration services, this has now been transferred back to Lloyds TSB Offshore Trust Company for a fixed fee of \$10,000 per annum and a fee of \$3,000 for bookkeeping and accounting services plus disbursements.

Total administration and accounting fees for the year amounted to €8,000 (2010: €9,000).

**1.10 Bond redemption expenses**

According to the terms of arrangement the difference between the interest instalments receivable on the Schuldschein and the redemption value of the relevant Deutsche Mark bearer bonds will be utilised for payment of costs pertaining to redemption of the Deutsche Mark bearer bonds. Accordingly, bond redemption expenses are recorded at the time when the bonds are actually redeemed.

**1.11 Share capital**

Ordinary shares are classified as equity.

**SERIES B EURO-DM SECURITIES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31ST DECEMBER 2011 (continued)**

**2 FINANCIAL RISK MANAGEMENT**

The Company's activities expose it to a variety of financial risks: Market risk, credit risk and counter-party risk, and liquidity risk as explained below.

**2.1 Financial risk factors**

**a) Market risk**

**i) Price risk and Interest rate risk**

The overall position and risk is governed by terms of the determined loan document under the Schuldschein, and is matched and funded by zero coupon Deutsche mark bearer bonds. The interest rate on the Schuldschein is fixed and therefore interest rate risk is deemed to be minimal.

**ii) Currency risk**

The Company's presentation and functional reporting currency is the Euro and there is no exchange rate risk on income since the DM was converted to the Euro in 2002 at a fixed rate of 1.95583. There is some limited exposure on expenses charged in Pound Sterling ("GBP") and United States Dollar ("USD") currencies, however these expenses are fully reimbursed by the controlling company, Commerzbank AG.

**iii) Sensitivity analysis**

The Company has not provided a sensitivity analysis, given that both interest rate risk and currency risk are not deemed to be relevant as the zero coupon Deutsche Mark bearer bonds are fully funded by the Schuldschein. Therefore in the opinion of the Directors, no sensitivity analysis is required to be disclosed.

**b) Credit risk and counter party risk**

Credit risk is the risk that the counter-parties will be unable to pay amounts in full when due. The Company's single investment holding is the Schuldschein (as described in note 3), with an actual balance outstanding of €301.8m as at 31 December 2011 (2010; €283.9m). The Company has covenanted not to enter into any other transactions except in connection to the Schuldschein. An impairment review was carried out within the business in respect of the Schuldschein and based on such the Directors are of the view that no impairment provision is required, as more fully described below.

The Directors believe that the Schuldschein investment is government backed and the loan originates from an EU member state. This is because Bahn AG, an integrated rail and logistics group, owns and operates the German national rail transportation network. It is 100% owned by the Federal Republic of Germany. This is why we believe the credit risk of the receivable from the related party is deemed to be minimal.

The only other asset subject to credit risk is the receivable from the related party, Commerzbank AG is the ultimate controlling party of the Company. Given that Commerzbank AG, is a well regulated bank with a credit rating of A-1 the credit risk of the receivable from the related party is deemed to be minimal.

The Directors have accepted on balance that there is no evidence to suggest that the Schuldschein investment had suffered a decline in fair value below the cost, or that any decline was prolonged or significant. The Directors of the Company are therefore of the opinion that the investment is not currently impaired, although they do acknowledge that they will continue to monitor the situation, given the current adverse economic conditions.

**c) Liquidity risk**

Liquidity risk is the risk that the Company is unable to meet the payment obligations associated with its financial liabilities when they fall due.

The Company currently has minimal exposure to liquidity risk as its obligations to meet its liabilities are offset by the investment held in accordance with the terms of the loan agreement. There have been no defaults or breaches to date, in relation to financial obligations of the Company.

<b>As at 31 December 2011</b>	<b>Less than 1 year</b>	<b>2 to 5 years</b>	<b>Over 5 years</b>
	<b>Euro' 000s</b>		<b>Euro' 000s</b>
Trade payable and accrued expenses	21	-	-
Financial liabilities at amortised cost	-	-	301,822
<b>As at 31 December 2010</b>	<b>Less than 1 year</b>	<b>2 to 5 years</b>	<b>Over 5 years</b>
	<b>Euro' 000s</b>		<b>Euro' 000s</b>
Trade payable and accrued expenses	11	-	-
Financial liabilities at amortised cost	-	-	283,896

**SERIES B EURO-DM SECURITIES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31ST DECEMBER 2011 (continued)**

**2 FINANCIAL RISK MANAGEMENT (continued)**

**2.2 Capital risk management**

As of 31 December 2011 the Company has an ordinary share capital of €5,000 (2010: €5,000). The Company's main transaction, acquisition of Schuldschein was funded through issue of Deutsche Mark bearer bonds as described in note 6 to the financial statements.

**2.3 Limited recourse**

There is no limited recourse in place, as the financial assets are not secured on any specific assets of the issuer but are guaranteed by the issuer for repayment.

**3 HELD TO MATURITY FINANCIAL ASSETS**

This represents an unlisted investment in a Schuldschein issued by the Bundesbahn (German Federal Republic Railway) on 8th April 1986. The Schuldschein, which has a face value of €216,890,016, was purchased at a cost of €207,498,986.

Between 3 April 1986 and 2 April 1996, the Schuldschein yields interest at a rate of 6.1% p.a. due and payable annually. Subsequently, it bears interest in equal instalments of €74,067,940 due on 3 April 2001 and 2006, and €175,030,243 due on 3 April 2016. The principal amount of the Schuldschein is payable on 3 April 2016.

This investment is recorded initially at cost and is subsequently measured at amortised cost which is determined after taking into account interest yield, discount amortised and receipts of interest instalments as they become due. Interest on the Schuldschein is recorded and discount is amortised through the income statement in a manner so as to produce a constant periodic rate of return over the life of the Schuldschein.

The Schuldschein is used to provide security for the Deutsche Mark bearer bonds detailed in note 6 below.

The carrying value of the Schuldschein is as follows:

	<u>€000s</u>	
	<u>2011</u>	<u>2010</u>
Amortised cost at beginning of the year	283,727	266,810
Interest income during the year at effective interest rate	<u>17,952</u>	<u>16,917</u>
Amortised cost at the end of the year	<u>€301,679</u>	<u>€283,727</u>

The effective rate of the Schuldschein is 6.34% p.a. The fair value of the Schuldschein presented in the Balance Sheet is estimated to be €375,046,290 as at 31 December 2011 (2010: €350,907,951).

**4 PREPAID EXPENSE**

This represents advance payments made in respect of Trustees and Paying Agents fees and is amortised through the Statement of Comprehensive Income on a straight line basis over the life of the Schuldschein.

	<u>€ 000s</u>	
	<u>2011</u>	<u>2010</u>
Carrying cost at the beginning of the year	68	81
Amortised during the year	<u>(13)</u>	<u>(13)</u>
Carrying cost at the end of the year	<u>€55</u>	<u>€68</u>

**5 FINANCIAL LIABILITIES AT AMORTISED COST**

As explained in note 3 to these financial statements, the Company issued zero coupon bonds and sold its rights to receive interest due on the Schuldschein during the period 3 April 1986 to 2 April 1996 to finance the purchase of the Schuldschein. These liabilities are recorded in the financial statements at their amortised cost which is determined after taking into account discount and transaction cost amortisation and payment of interest instalments to settle the liability arising on the sale of rights to receive interest on the Schuldschein, and fully secured on the Schuldschein described in note 3.

**SERIES B EURO-DM SECURITIES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31ST DECEMBER 2011 (continued)**

**5 FINANCIAL LIABILITIES AT AMORTISED COST (continued)**

	€ 000s	
	<u>2011</u>	<u>2010</u>
Amortised cost at the beginning of the year	283,896	267,001
Amortisation of discount at effective interest rate	17,926	16,895
Amortised cost at the end of the year	<u>€301,822</u>	<u>€283,896</u>

The effective interest rate of the Deutsche Mark bearer bonds is 6.33% p.a.

The contractual value at the maturity of the Deutsche Mark bearer bonds is € 392m (2010 - € 392m).

The fair value of the Deutsch Mark bearer bonds presented in the Balance Sheet is estimated to be €375,046,290 as at 31 December 2011 (2010: €350,907,951).

**6 ORDINARY SHARE CAPITAL**

	<u>2011</u>	<u>2010</u>
Authorised 10,000 shares of £1 each	£ <u>10,000</u>	£ <u>10,000</u>
Issued and fully paid 3,509 shares of £1 each	£ <u>3,509</u>	£ <u>3,509</u>
	€ 000s	
Converted to € at the exchange rate ruling at the date on which the Deutsche Mark ("DM") ceased to be legal tender.	€ <u>5</u>	€ <u>5</u>

**7 IMMEDIATE AND ULTIMATE CONTROLLING PARTY**

The immediate controlling party of the Company is Lloyds TSB Offshore Trust Company Ltd (formerly known as Hill Samuel Offshore Trust Company Limited), as trustee of a charitable trust. In the opinion of the trustee the ultimate controlling party is Commerzbank AG, a regulated German bank.

**8 ADMINISTRATION EXPENSES**

In accordance with an undertaking dated 2nd July 1986 the promoters of the issue of the issue of Zero Coupon Deutsche Mark bearer bonds described in note 3, have agreed to reimburse the Company for all expenses incurred. The expenses and the corresponding reimbursement are shown in the Statement of Comprehensive Income.

**9 TAXATION**

The Company is taxed at the standard rate 0%.

**10 RELATED PARTY TRANSACTIONS**

Parties are considered related if one party has ability to control the other party or exercise influence over the party in making financial or operational decisions. The following are considered by the directors of the Company to be related parties:

- Lloyds TSB Offshore Trust Company Ltd as immediate controlling party of the Company. The directors of Lloyds TSB Company Offshore Trust Company Ltd are also directors of the Company.
- Commerzbank AG as the ultimate controlling party and paying agent of the Company.
- Lloyds TSB Offshore Trust Company Ltd provided administrative and accountancy services for a fee of € 8,000 (2010 € 9,000 Computershare) during the year.
- Commerzbank AG has reimbursed the Company of all administrative expenses for the year of € 14,000 (2010 - € 12,000).

The balance receivable from Commerzbank AG at 31 December 2011 is € 24,000 (2010 - € 16,000).

**11 SUBSEQUENT EVENTS**

No significant events occurred between the year end date and the date of signing the financial statements, which would require adjustments, or disclosure in, the financial statements.