

**EURO-DM SECURITIES LIMITED**

**INTERIM REPORT AND UNAUDITED INTERIM FINANCIAL STATEMENTS**

**FOR THE PERIOD 1 JANUARY 2014 TO 30 JUNE 2014**

**EURO-DM SECURITIES LIMITED**  
**UNAUDITED FINANCIAL STATEMENTS**  
**FOR THE PERIOD 1 JANUARY 2014 TO 30 JUNE 2014**

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## **EURO-DM SECURITIES LIMITED**

### **UNAUDITED INTERIM REPORT OF THE DIRECTORS**

The Directors submit their interim report and the unaudited interim financial statements for the period 1 January 2014 to 30 June 2014.

#### **INCORPORATION**

Euro-DM Securities Limited ("the Company") was incorporated in Jersey, Channel Islands, on 11th February 1986.

#### **ACTIVITIES**

The Company holds a thirty year Schuldschein issued by the German Federal Post Office. The purchase of the Schuldschein has been financed from the net proceeds on the issue of Zero-Coupon Deutsche Mark Bearer Bonds on the Frankfurt Stock Exchange and the sale of a portion of the interest receivable under the Schuldschein.

#### **RESULTS**

The results for the period 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 period 1 January 2014 to 30 June 2014 (1 January 2013 to 30 June 2013 NIL).

#### **DIRECTORS' RESPONSIBILITIES**

The Directors are responsible for preparing financial statements in accordance with applicable law and International Financial Reporting Standards as adopted by the European Union ("IFRS").

The Directors are responsible for keeping proper accounting records, for preparing the half-yearly financial report in accordance with IFRS as adopted by the European Union, and ensuring compliance with applicable listing rules. 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.

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

The Directors of the Company confirm to the best of their knowledge that the financial statements for the period 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 principal risks and uncertainties faced by the Company are disclosed in the notes of these financial statements.

**EURO-DM SECURITIES LIMITED**

**UNAUDITED INTERIM REPORT OF THE DIRECTORS (continued)**

**DIRECTORS**

The Directors of the Company who served during the period and subsequently were as follows:

Lloyds Management (Channel Islands) Limited (appointed 18 September 2013)

Lloyds Services (Channel Islands) Limited (appointed 18 September 2013)

**SECRETARY**

Lloyds Management (Channel Islands) Limited acted as Secretary throughout the period.

**REGISTERED OFFICE**

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

**ADMINISTRATOR**

Lloyds Trust Company (Channel Islands) Limited  
11-12 Esplanade  
St Helier  
Jersey  
JE4 8PH  
Channel Islands

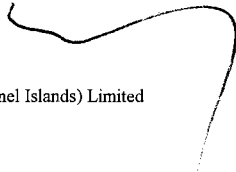
**PAYING AGENT**

Commerzbank AG  
Mainzer Landstraße 151  
60327 Frankfurt am Main  
Frankfurt  
Germany

BY ORDER OF THE BOARD



Lloyds Management (Channel Islands) Limited



Dated 18 August 2014

## INDEPENDENT REVIEW REPORT TO EURO-DM SECURITIES LIMITED

We have been engaged by the Company to review the interim financial statements in the half-yearly financial report for the six months ended 30 June 2014 which comprises the statement of financial position, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and related notes 1 to 11. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

### Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. As disclosed in note 1, the annual financial statements of the Company are prepared in accordance with IFRSs as adopted by the European Union. The interim financial statements included in this half-yearly financial report have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the European Union.

### Our responsibility

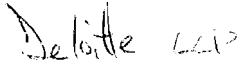
Our responsibility is to express to the Company a conclusion on the interim financial statements in the half-yearly financial report based on our review.

### Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim set of financial statements in the half-yearly financial report for the six months ended 30 June 2014 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union



**Deloitte LLP**  
Chartered Accountants  
St Helier, Jersey

19 August 2014

**EURO-DM SECURITIES LIMITED**

**UNAUDITED INTERIM STATEMENT OF FINANCIAL POSITION**

**AS AT 30TH JUNE 2014**

(Expressed in Euro '000s unless otherwise stated)

		€ 000s	
		Unaudited 30 June 2014	Audited 31 December 2013
<b>ASSETS</b>			
<b>Non-current assets</b>			
Loan and receivables	3	366,860	355,067
Prepaid expenses	4	29	37
		<b>366,889</b>	<b>355,104</b>
<b>Current assets</b>			
Receivable from related party		6	15
Cash and cash equivalents		10	10
<b>TOTAL ASSETS</b>		<b>366,905</b>	<b>355,129</b>
<b>EQUITY</b>			
<b>Capital and reserves (attributable to the company's equity holders)</b>			
Ordinary share capital	8	5	5
Accumulated losses		(43)	(55)
<b>TOTAL EQUITY</b>		<b>(38)</b>	<b>(50)</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Financial liabilities at amortised cost	7	366,934	355,161
<b>Current liabilities</b>			
Trade payable and accrued expenses		9	18
<b>TOTAL LIABILITIES</b>		<b>366,943</b>	<b>355,179</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>366,905</b>	<b>355,129</b>

The unaudited interim financial statements on pages 4 to 13 were approved and authorised for issue by the Corporate Board of directors on 18 August 2014 and are signed on its behalf by:

on behalf of  
Lloyds Management (Channel Islands) Limited

on behalf of  
Lloyds Services (Channel Islands) Limited

Director .....

Director .....

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

**EURO-DM SECURITIES LIMITED**

**UNAUDITED INTERIM STATEMENT OF COMPREHENSIVE INCOME**

**FOR THE PERIOD ENDED 30TH JUNE 2014**

(Expressed in Euro '000s unless otherwise stated)

		<u>€ 000s</u>	
		<u>Unaudited</u>	<u>Unaudited</u>
		<u>Period 1 January 2014 to 30</u>	<u>Period 1 January 2013 to 30</u>
		<u>June</u>	<u>June</u>
	<u>NOTES</u>	<u>2014</u>	<u>2013</u>
<b>INCOME</b>			
Interest income	3	11,793	11,058
<b>ADMINISTRATION EXPENSES</b>			
Secretarial fee		4	4
Accountancy fee		2	3
Audit fee		4	3
Disbursements		1	1
		<u>11</u>	<u>10</u>
Less: Reimbursement		<u>(11)</u>	<u>(10)</u>
Operating profit		11,793	11,058
<b>FINANCE COSTS</b>			
Amortisation charge	7	11,773	11,041
Prepaid expenses	4	8	8
		<u>11,781</u>	<u>11,049</u>
<b>PROFIT FOR THE PERIOD AND TOTAL COMPREHENSIVE INCOME</b>			
		<u>12</u>	<u>9</u>

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

**EURO-DM SECURITIES LIMITED**

**UNAUDITED INTERIM STATEMENT OF CHANGES IN EQUITY**

**FOR THE PERIOD ENDED 30TH JUNE 2014**

(Expressed in Euro '000s unless otherwise stated)

	Unaudited Share Capital	Unaudited Accumulated Losses	Unaudited Total Equity
Balance at 1 January 2014	5	(55)	(50)
Total comprehensive income to equity holders of the Company	-	12	12
<b>Balance at 30 June 2014 (unaudited)</b>	<b>5</b>	<b>(43)</b>	<b>(38)</b>

	Unaudited Share Capital	Unaudited Accumulated Losses	Unaudited Total Equity
Balance at 1 January 2013	5	(72)	(67)
Total comprehensive income to equity holders of the Company	-	9	9
<b>Balance at 30 June 2013 (unaudited)</b>	<b>5</b>	<b>(63)</b>	<b>(58)</b>

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



**EURO-DM SECURITIES LIMITED**

**UNAUDITED INTERIM STATEMENT OF CASH FLOWS**

**FOR THE PERIOD ENDED 30TH JUNE 2014**

(Expressed in Euro '000s unless otherwise stated)

	<u>NOTES</u>	<u>€ 000s</u>	
		<u>Unaudited</u>	<u>Unaudited</u>
		<u>Period 1</u>	<u>Period 1</u>
		<u>January</u>	<u>January 2013</u>
		<u>2014 to 30</u>	<u>to 30 June</u>
		<u>June</u>	<u>2013</u>
		<u>2014</u>	<u>2013</u>
<b>Cash flows from operating activities</b>			
Cash flows from operating activities		-	-
Interest received	3	-	-
<b>Net cash generated from / (used in) operating activities</b>		<u>-</u>	<u>-</u>
<b>Cash flows from financing activities</b>			
Redemption of bearer bonds	7	-	-
<b>Net cash used in financing activities</b>		<u>-</u>	<u>-</u>
<b>Net decrease in cash and cash equivalents</b>		-	-
<b>Cash and cash equivalents at beginning of period</b>		10	10
<b>Cash and cash equivalents at end of the period</b>		<u>10</u>	<u>10</u>

**UNAUDITED INTERIM RECONCILIATION OF TOTAL COMPREHENSIVE INCOME TO EQUITY HOLDERS OF THE COMPANY**  
**TO CASH FLOWS FROM OPERATING ACTIVITIES**

	<u>NOTES</u>	<u>€ 000s</u>	
		<u>Unaudited</u>	<u>Unaudited</u>
		<u>Period 1</u>	<u>Period 1</u>
		<u>January</u>	<u>January 2013</u>
		<u>2014 to 30</u>	<u>to 30 June</u>
		<u>June</u>	<u>2013</u>
		<u>2014</u>	<u>2013</u>
<b>Total comprehensive income</b>		12	9
Adjustments for:			
Interest income at effective interest rate	3	(11,793)	(11,058)
Amortisation on discount on bearer bonds at effective interest rate	7	11,773	11,041
Changes in working capital:			
Decrease in receivable from related party		2	4
Decrease in trade payable and accrued expenses		(2)	(4)
Decrease in prepaid expenses		8	8
<b>Cash flows from operating activities</b>		<u>-</u>	<u>-</u>

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

**EURO-DM SECURITIES LIMITED**  
**NOTES TO THE UNAUDITED FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 30TH JUNE 2014**

**1 ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of these financial statements for Euro-DM Securities Limited ("the Company") are set out below. These policies have been applied consistently to all periods presented, and are consistent with the financial statements for the year ended 31 December 2013.

**1.1 Going Concern**

Although there is a negative equity position as at 30 June 2014, 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. 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 condensed unaudited interim financial statements for the six months ended 30 June 2014 have been prepared in accordance with IAS 34, 'Interim financial reporting'. The unaudited interim financial statements should be read in conjunction with the audited annual financial statements for the year ended 31 December 2013, which 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 accounting policies are consistent with those of the previous financial year.

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 listed on the Frankfurt Stock Exchange. These 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 statement of comprehensive income 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 2014**

There have been no new standards, interpretations or amendments to existing standards which are effective 1 January 2014 that have a material impact on the Company.

**b) Standards, amendments and interpretations to existing standards that are not yet effective for the financial period beginning 1 January 2014 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 period beginning 1 January 2014 and have not been early adopted by the Company.**

- IFRS 9, 'Financial instruments', effective for annual periods beginning on or after 1 January 2018, specifies how an entity should classify and measure financial assets and liabilities, including some hybrid contracts.

The Directors are yet to conclude on the impact of the above on the financial statements.

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.

**EURO-DM SECURITIES LIMITED**

**NOTES TO THE UNAUDITED FINANCIAL STATEMENTS**

**FOR THE PERIOD ENDED 30TH JUNE 2014 (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 period are addressed below.

**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 throughout the life of the Schuldschein and bearer bonds. The Company used its best judgement in estimating the estimated cash inflows and cash outflows in the calculation of effective interest rate. The amortised cost of the Schuldschein and Deutsche Mark bearer bonds would be over or under estimated if the cash flows were to differ from the management estimates.

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

**a) Impairment of loans and receivables**

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

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 Schuldschein issuer (Bundespost, German Federal Republic Post Office).

Bundespost, German Federal Republic Post Office, is financially backed by the Federal Republic of Germany.

The Directors of the Company have a duty to review for any impairment of the asset for the period ended 30 June 2014 in accordance with (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. Given the current economic conditions, they will continue to monitor the situation.

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

**1.3.1 Classification**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Schuldschein is classified as loans and receivables. 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 classified as other liabilities carried at amortised cost.

**1.3.2 Recognition and measurement**

IAS 39, Financial Instruments: Recognition and Measurement, requires 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 or financial liability.

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

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

## **EURO-DM SECURITIES LIMITED**

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

#### **FOR THE PERIOD ENDED 30TH JUNE 2014 (continued)**

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

##### **1.3.4 Fair value estimation**

The fair value of any financial assets and liabilities that are traded in an active market are determined with reference to the market price at the measurement date. The fair value of financial assets and liabilities that are not traded in an active market (for example, inactively traded bonds) 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 may include the use of discounted cash flow analysis 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 7 for fair value estimation. Fair values are only provided for disclosure purposes as the Schuldschein and Deutsche Mark bearer bonds are accounted for at amortised cost.

Due to the inherent uncertainty in respect of the measurement of fair value of both the investment in the Schuldschein and the liability of the Zero Coupon Bond, the estimated fair values disclosed may differ significantly from the realisable value, and the differences could be material. The Zero Coupon Bonds are issued with a maturity date corresponding to the payment date on the Schuldschein loan. The Schuldschein investment continues to be government backed and the loans originate from an EU member state. This is because the Deutsche Post, under Postumwandlungsgesetz law, is backed by the Federal Republic of Germany, to fulfil the prior obligations of Deutsche Bundespost Post following its split and privatisation in to three separate entities. The counterparties, who are legally bound by the documentation, are regulated banks.

##### **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.

##### **1.5 Functional and presentation currency**

The Company has adopted the Euro ("EUR") as its presentation and functional currency, as the Company's primary activity is to invest in EUR 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.

Transactions denominated in currencies 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 period/year end. Foreign currency gains and losses on such transactions are recognised in the Statement of Comprehensive Income.

##### **1.6 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.

##### **1.7 Amortisation charge**

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

##### **1.8 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.

##### **1.9 Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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.

##### **1.10 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.

##### **1.12 Expenses**

In accordance with an undertaking dated 2nd July 1986, the promoters (Commerzbank AG) of the issue of Zero Coupon Deutsche Mark bearer bonds described in note 5, have agreed to reimburse the Company for all expenses incurred.

##### **1.13 Segmental Reporting**

The Company is deemed to be organised into one activity and geographical segment. No additional disclosures have therefore been included in relation to segmental reporting.

**EURO-DM SECURITIES LIMITED**

**NOTES TO THE UNAUDITED FINANCIAL STATEMENTS**

**FOR THE PERIOD ENDED 30TH JUNE 2014 (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) 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 and United States Dollar currencies, however these expenses are fully reimbursed in the source currency 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 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 €366.86m as at 30 June 2014 and a fair value of €405.54m as at 30 June 2014. The Company has covenanted not to enter into any other transactions except in connection to the Schuldschein. An impairment review was carried out 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 Schuldschein investment continues to be government backed and the loans originate from an EU member state. This is because Deutsche Post, under Postumwandlungsgesetz law, is backed by the Federal Republic of Germany through a commitment made by the Federal Republic of Germany to fulfil the prior obligations of Deutsche Bundespost Post following its split and privatisation in to three separate entities. The counterparty and paying agent who is legally bound by the documentation, is a regulated bank.

The only other asset subject to credit risk is the receivable from a related party, Commerzbank AG, who is the ultimate controlling party of the Company and paying agent. Given that Commerzbank AG is a well regulated bank with a credit rating of A-/A-2 from Standard & Poor's ratings services, the credit risk of the receivable from the related party is deemed to be minimal.

The Directors have 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 will continue to monitor the situation, given the current economic conditions. For further information please refer to note 3.

**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 30 June 2014</b>	<b>Less than 1 year</b>	<b>2 to 5 years</b>	<b>Over 5</b>
	<b>Euro' 000s</b>		<b>years Euro'</b>
			<b>000s</b>
Trade payable and accrued expenses	9	-	-
Financial liabilities at amortised cost	-	409,034	
<b>As at 31 December 2013</b>	<b>Less than 1 year</b>	<b>2 to 5 years</b>	<b>Over 5</b>
	<b>Euro' 000s</b>		<b>years Euro'</b>
			<b>000s</b>
Trade payable and accrued expenses	18	-	-
Financial liabilities at amortised cost	-	409,304	-

**EURO-DM SECURITIES LIMITED**

**NOTES TO THE UNAUDITED FINANCIAL STATEMENTS**

**FOR THE PERIOD ENDED 30TH JUNE 2014 (continued)**

**2 FINANCIAL RISK MANAGEMENT (continued)**

**2.2 Capital risk management**

As of 30 June 2014 the Company has an ordinary share capital of €5,000 (Year ended 31 December 2013: €5,000). The Company's main transaction, acquisition of Schuldschein was funded through issue of Deutsche Mark bearer bonds as described in note 7 to the financial statements.

**2.3 Limited recourse**

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

**3 LOANS AND RECEIVABLES**

Loans and receivables represent an investment in a Schuldschein issued by Bundespost, German Federal Republic Post. The investment has a face value of €300,759,933 and was purchased at a cost of €287,580,920.

Between 14 March 1986 and 13 March 1996, the Schuldschein yields interest at a rate of 6.3% p.a. due and payable annually. Subsequently, it bears interest in equal instalments due in every five years on 14 March 2001, 2006, 2011 and 2016 respectively. The principal amount of the Schuldschein is payable on 14 March 2016.

The Schuldschein is used to provide security for the Deutsche Mark bearer bonds detailed in note 7 below.

The carrying value of the Schuldschein is as follows:

	<b>€000s</b>	
	<b>Unaudited 30 June 2014</b>	<b>Audited 31 December 2013</b>
Amortised cost at beginning of the period/year	355,067	332,950
Interest income during the period/year at effective interest rate	<u>11,793</u>	<u>22,117</u>
Amortised cost at the end of the period/year	<u><u>€366,860</u></u>	<u><u>€355,067</u></u>

The effective rate of the Schuldschein is 6.64% p.a. (2013:6.64%). The fair value of the Schuldschein presented in the statement of financial position is estimated to be €405,544,694 as at 30 June 2014 (as at 31 December 2013: €399,048,279).

**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.

	<b>€ 000s</b>	
	<b>Unaudited 30 June 2014</b>	<b>Audited 31 December 2013</b>
Carrying cost at the beginning of the period/year	37	54
Amortised during the period/year	<u>(8)</u>	<u>(17)</u>
Carrying cost at the end of the period/year	<u><u>€29</u></u>	<u><u>€37</u></u>

**5 ADMINISTRATION EXPENSES**

In accordance with an undertaking dated 2nd July 1986 the promoters of the issue of the Zero Coupon Deutsche Mark bearer bonds described in note 7, have agreed to reimburse the Company for all expenses incurred. The expenses and the corresponding reimbursement are shown in the Statement of Comprehensive Income.

The Company engaged the services of Lloyds Trust Company (Channel Islands) Limited for a fixed fee of \$10,000 per annum and an annual fee of \$3,000 for bookkeeping and accounting services, plus an interim fee of £2,000 for the production of interim financial statements plus disbursements.

**6 TAXATION**

The Company is taxed at the standard rate 0%. (2013:0%).

**EURO-DM SECURITIES LIMITED**

**NOTES TO THE UNAUDITED FINANCIAL STATEMENTS**

**FOR THE PERIOD ENDED 30TH JUNE 2014 (continued)**

**7 FINANCIAL LIABILITIES AT AMORTISED COST**

The Company issued 1,435,280,000 Zero-Coupon Deutsche Mark bearer bonds divided into series (Series 2001, Series 2006, Series 2011 and Series 2016). The bonds are listed on the Frankfurt Stock Exchange. The Company sold its right to receive the interest due on the Schuldschein during the period 14 March 1986 to 13 March 1996 in order 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.

	€ 000s	
	<u>Unaudited 30 June 2014</u>	<u>Audited 31 December 2013</u>
Amortised cost at the beginning of the period/year	355,161	333,079
Amortisation of discount at effective interest rate	11,773	22,082
Amortised cost at the end of the period/year	<u>€366,934</u>	<u>€355,161</u>

The effective interest rate of the Deutsche Mark bearer bonds is 6.63% p.a.

The contractual value at the maturity of the Deutsche Mark bearer bonds is €409m (31 December 2013 - € 409m).

The fair value of the Deutsche Mark bearer bonds presented in the Statement of financial position is estimated to be €404,071,929 as at 30 June 2014 (31 December 2013: €399,445,760).

**8 ORDINARY SHARE CAPITAL**

	<u>2014</u>	<u>2013</u>
Authorised 10,000 shares of £1 each with ordinary voting rights	£ <u>10,000</u>	£ <u>10,000</u>
Issued and fully paid 3,509 shares of £1 each with ordinary voting rights	£ <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, and not re-converted each year.	€ <u>5</u>	€ <u>5</u>

**9 IMMEDIATE AND ULTIMATE CONTROLLING PARTY**

The immediate controlling party of the Company is Lloyds Trust Company (Channel Islands) Limited, as trustee of a charitable trust, which is the beneficial owner of the issued shares. In the opinion of the trustee the ultimate controlling party is Commerzbank AG, a regulated German bank.

**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 Trust Company (Channel Islands) Limited as immediate controlling party of the Company.
- Commerzbank AG as the ultimate controlling party and paying agent of the Company.
- Lloyds Trust Company (Channel Islands) Limited provided administrative and accountancy services for a fee of €6,557 (6 month period to 30 June 2013 €6,140).
- Commerzbank AG has reimbursed the Company of all administrative expenses for the period of €11,000 (6 month period ended 30 June 2013 - €11,000).

The balance receivable from Commerzbank AG at 30 June 2014 is €6,000 (31 December 2013 - €15,000).

**11 SUBSEQUENT EVENTS**

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