

GERMAN PUBLIC SECTOR FINANCE B.V.

Amsterdam, The Netherlands

ANNUAL REPORT 2010

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Responsibility Statement

The Management of German Public Sector Finance B.V. (hereinafter "the Company") wishes to state that to our knowledge:

1. The 2010 financial statements give a true and fair view of the assets, liabilities, financial position and profit of the Company.
2. The 2010 financial statements give a true and fair view of the Company's position as per 31 December 2010 and the developments during the financial year ended 31 December 2010 of the Company, together with a description of principal risks it faces.

Signed by:

Johan Smit
Managing Director

Deutsche International Trust Company N.V.
Managing Director

Amsterdam, The Netherlands, 13 April 2011

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GERMAN PUBLIC SECTOR FINANCE B.V.

Management Report

The Management herewith submits its annual accounts of German Public Sector Finance B.V. (hereinafter "the Company") for the financial year ended 31 December 2010.

General information

The Company is a limited liability company incorporated under the laws of The Netherlands and has its corporate seat in Rotterdam and business seat in Amsterdam.

The principal activities of the Company consist of acquiring funds on behalf of institutions belonging to the public sector in Germany.

Activities for the year

The Company's activities remain unchanged from last year. It continues to hold a bond liability, from which the funds were on-lent to a third party. These items are the most significant items in the balance sheet.

With respect to the profit and loss account, the interest rates on the bond liability and the long-term receivable are identical so the net interest income remains at nil (2009: nil). The Company receives management fees from a related party to ensure its profit is positive and at least equal to the taxable profit as agreed with the Dutch tax authorities in 1986.

Financial risk management

The Company's activities are primarily exposed to market risks. Market risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The Group's Corporate Risk function provides services to manage the financial risk relating to the Company's operations. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk. The Company manages market risk by stratifying the portfolio and imposing limits.

Currency risk

Currency risk is the risk that fluctuations in the prevailing foreign currency exchange rates will affect the Company's financial position and cash flows. The Company does not run any currency risk, as the Company does not use any currency other than euros.

Interest risk

Interest rate risk is the risk that fluctuations in the prevailing levels of market interest rates will affect the Company's financial position and cash flows. Interest rate exposure on the debt is fully mitigated by the on-lending of these amounts to Deutsche Telekom A.G. with matching terms.

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Management Report

Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The Company's credit risk is predominantly with Deutsche Telekom AG, the largest telecommunication company in Germany. The Company has not entered into any other transactions that might generate credit risk.

Future outlook

It is the intention of Royal Bank of Scotland N.V. (Amsterdam, The Netherlands) to sell all of its shares in the Company in the near future.

Audit Committee

On 25 May 2009, the shareholders of the Company, Deutsche Bank A.G. and Royal Bank of Scotland N.V. (formerly ABN AMRO Bank N.V.) have approved the Board Resolution to establish an Audit Committee for the Company, following the Royal Decree of 26 July 2008 implementing article 41 of the EU Directive 2006/43/EG. The Audit Committee of the Company consists of the following members: Jan Rijkenberg (independent member), Corwin Sier (accounting expert) and Johan Smit (accounting expert).

The Management

Johan Smit

Managing Director

Deutsche International Trust Company N.V.

Managing Director

Amsterdam, The Netherlands, 13 April 2011

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GERMAN PUBLIC SECTOR FINANCE B.V.

Balance Sheet as at 31 December 2010
(before appropriation of results and expressed in euros)

	Notes	31-Dec-2010	Restated 31-Dec-2009
FIXED ASSETS			
Financial fixed assets			
Loan	(3)	112,363,984	113,425,327
CURRENT ASSETS			
Accrued interest receivable	(3)	3,522,311	3,522,311
Amounts due from group entity		54,364	210,728
Prepaid expenses		-	909
Cash at banks	(5)	46,516	45,365
		<u>3,623,191</u>	<u>3,779,313</u>
CURRENT LIABILITIES			
Accrued interest payable	(6)	3,522,311	3,561,988
Interest payable		41,032	-
Creditors		23,470	95,213
		<u>3,586,813</u>	<u>3,657,201</u>
NET CURRENT ASSETS		<u>36,378</u>	<u>122,112</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>112,400,362</u>	<u>113,547,439</u>
LONG TERM LIABILITY			
Bond liabilities	(6)	112,363,984	113,425,327
TOTAL ASSETS LESS LIABILITIES		<u><u>36,378</u></u>	<u><u>122,112</u></u>
CAPITAL AND RESERVES			
Issued share capital	(7)	18,151	18,151
Retained earnings		-	85,810
Result for the year		18,227	18,151
		<u><u>36,378</u></u>	<u><u>122,112</u></u>

The notes on page 7 to page 10 are an integral part of the financial statements.

GERMAN PUBLIC SECTOR FINANCE B.V.

Profit and Loss account for the year ended 31 December 2010
(expressed in euros)

	Notes	Year 2010	Year 2009
Interest on loan and bond			
Interest income	(8)	4,946,337	6,007,680
Interest expense	(8)	<u>(4,946,337)</u>	<u>(6,007,680)</u>
Net income from financial activities		<u>-</u>	<u>-</u>
Expenses			
General and administrative expenses		(43,289)	(151,091)
Other income		48	-
Interest tax payments		-	6
Interest income		<u>-</u>	<u>13</u>
		<u>(43,241)</u>	<u>(151,072)</u>
Service fee income	(9)	<u>65,930</u>	<u>173,761</u>
PROFIT BEFORE TAXATION		22,689	22,689
Corporate income tax	(10)	<u>(4,462)</u>	<u>(4,538)</u>
RESULT FOR THE YEAR		<u><u>18,227</u></u>	<u><u>18,151</u></u>

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The notes on page 7 to page 10 are an integral part of the financial statements.

GERMAN PUBLIC SECTOR FINANCE B.V.

Cash Flow Statement for the year ended 31 December 2010 (expressed in euros)

	Notes	Year 2010	Year 2009
CASH FLOWS FROM OPERATING ACTIVITIES:			
Service fee income received		222,293	96,760
Payments to creditors		<u>(114,045)</u>	<u>(103,923)</u>
Cash inflow (outflow) from operations		108,248	(7,163)
Income tax paid	(10)	<u>(4,489)</u>	<u>(4,411)</u>
Net cash generated from (used in) operating activities		<u>103,759</u>	<u>(11,574)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Interest received on loan		6,007,680	6,007,680
Interest paid on bonds		(6,006,326)	(6,008,162)
Dividend distributed		<u>(103,961)</u>	<u>-</u>
Net cash used in financing activities		<u>(102,608)</u>	<u>(482)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		1,151	(12,056)
Balance at 1 January 2010 (1 January 2009)		<u>45,365</u>	<u>57,421</u>
Balance at 31 December 2010 (31 December 2009)		<u>46,516</u>	<u>45,365</u>

The notes on page 7 to page 10 are an integral part of the financial statements.

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GERMAN PUBLIC SECTOR FINANCE B.V.

Notes to the Accounts for the year ended 31 December 2010

1. General

The Company, a corporation with limited liability, having its statutory seat in Rotterdam, The Netherlands and its business seat in Amsterdam, The Netherlands, was incorporated on 22 May 1986.

The principal activities of the Company consist of acquiring funds on behalf of institutions belonging to the public sector in Germany. The Company's ultimate parent companies are Royal Bank of Scotland N.V. (formerly ABN AMRO Bank N.V. Amsterdam, The Netherlands) and Deutsche Bank A.G. (Frankfurt, Germany) each for 50%.

2. Summary of principal accounting policies

(a) General

The accompanying accounts have been prepared in accordance with the provisions of Part 9, Book 2 of The Netherlands Civil Code.

(b) Assets and liabilities

All assets and liabilities are stated at face value, unless otherwise stated in the notes thereon.

(c) Foreign currencies

Any assets and liabilities expressed in currencies other than euros are translated into euros at the rates of exchange prevailing at the balance sheet date. Any transactions in foreign currencies are translated into euros at rates of exchange approximating to those ruling at the date of the transactions. Resulting exchange differences, if any, are recognised in the profit and loss account.

(d) Determination of income

All income and expenses are calculated on an accrual basis.

(e) Cash Flow Statement

The cash flow statement has been prepared using the direct method. Cash flows denominated in foreign currencies, if any, are translated at average exchange rates. Exchange differences affecting cash items, if any, are shown separately in the cash flow statement. Interest paid and received, dividends received and income taxes are included in net cash from operating activities. Dividends paid, if any, are included in net cash used in financing activities.

(f) Corporation tax

Corporation tax is calculated on the basis of the profit before taxation shown in the profit and loss account, taking into account tax allowances as agreed with the Dutch tax authorities.

(g) Use of estimates and judgements

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

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Notes to the Accounts for the year ended 31 December 2010

(h) Financial instruments and changes in accounting policies

Financial instruments include loans payable and loans receivable. The financial instruments are initially recognized at fair value, including directly attributable transactions costs. After initial recognition, financial instruments are carried at amortized cost using the effective interest method, less impairment losses.

Due to a change in regulations with effect as from 1 January 2009, the financial assets and financial liabilities should be valued at amortised cost instead of face value, including comparative figures. Due to the fact that the changes in valuation of the long term loans and long term bond liabilities are equal and because the amortised cost equals more or less the face value of the other financial assets and liabilities, the influence of this change in accounting principles on the shareholder's equity at December 31, 2010 and on the result for the year 2010 is negligible.

Receivables are valued at face value less a bad debt provision if necessary.

3. Financial fixed assets

This item represents a loan granted to Deutsche Telekom (formerly named Deutsche Bundespost), Germany, originally amounting to DEM 500,000,000, due on 30 May 2016 and bearing interest at the rate of 5 7/8%.


The original amount due from Deutsche Telekom AG has been reduced. The reductions have been the result of assigning a part of the receivable balance to Deutsche Bank AG. As a result of the reductions, the amount receivable at 31 December 2010 and 31 December 2009 was DEM 200,000,000 (EUR 102,258,376).

This loan receivable from Deutsche Telekom has been pledged as security to the holders of the bond liability (see Note 6). As at 31 December 2010, the fair value of the loan amounted to EUR 112,363,984 (31 December 2009: EUR 113,425,327). A summary of the movement in the loan is as follows:

	31-Dec-2010	Restated 31-Dec-2009
Opening balance as at 1 January	113,425,327	119,587,883
Fair value adjustments	(1,061,343)	(6,162,556)
Opening balance as at 31 December	112,363,984	113,425,327

Accrued interest receivable is included in the balance sheet as a current asset.

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Notes to the Accounts for the year ended 31 December 2010

4. Accrued interest receivable and payable

These items represent accrued interest on the loan receivable and bond liability.

5. Cash at banks

Cash at banks are available on demand.

6. Bond liability

This item relates to a bond issued on the Frankfurt stock exchange which originally amounted to DEM 500,000,000 (EUR 255,645,941), due on 30 May 2016 and bearing interest at the rate of 5 7/8%. The amount due on the bond was reduced as a result of the Company assigning part of its receivable to the bondholder. As at 31 December 2010 and 31 December 2009, the Bond liability amounted to DEM 200,000,000 (EUR 102,258,376). The bond liability is not guaranteed. Reference is made to Note 3 above.

As at 31 December 2010, the fair value of the Bond amounted to EUR 112,363,984 (31 December 2009: EUR 113,425,327). A summary of the movement in the Bond is as follows:

	31-Dec-2010	Restated 31-Dec-2009
Opening balance as at 1 January	113,425,327	119,587,883
Fair value adjustments	(1,061,343)	(6,162,556)
Opening balance as at 31 December	112,363,984	113,425,327

Accrued bond interest payable is included in the balance sheet as a current liability.

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Notes to the Accounts for the year ended 31 December 2010

7. Capital and reserves

With reference to article 178c sub 1 of Book 2 of the Netherlands Civil Code, the authorized share capital consists of 200 ordinary shares. According to the Company's articles of association, the shares are denominated in Dutch guilders at NLG 1,000 (EUR 453.78) each. As per balance sheet date 40 shares (2009: 40) are issued and fully paid-up.

The movements in capital and reserves can be summarized as follows:

	<u>31-Dec-2010</u>	<u>31-Dec-2009</u>
Share capital (unchanged)	<u>18,151</u>	<u>18,151</u>
Retained earnings		
Beginning of year	85,810	67,659
Appropriation prior year result	18,151	18,151
Dividend distributed	(103,961)	-
End of year	<u>-</u>	<u>85,810</u>
Result for the year		
Beginning of year	18,151	18,151
Appropriation to retained earnings	(18,151)	(18,151)
Undistributed result	18,227	18,151
End of year	<u>18,227</u>	<u>18,151</u>
Total capital and reserves	<u><u>36,378</u></u>	<u><u>122,112</u></u>

8. Interest income and expenses

This item relates to the interest income on the loan granted to Deutsche Telekom, Germany (see note 3), and the interest expenses on the issued bond (see note 6). There is no margin between the interest received and paid.

9. Service fee income

The Company receives a service fee from Deutsche Bank AG, Germany, which has agreed to bear all expenses incurred by the Company plus a mark-up as deemed applicable per year.

10. Corporate income tax

The Company abides by certain conditions agreed to with The Netherlands Tax Authorities by which corporate income tax is charged on a minimum fixed profit per annum.

11. Employees

The Company has no employees and hence incurred no wages, salaries and related social security charges during the year under review or the previous year.

GERMAN PUBLIC SECTOR FINANCE B.V.

Notes to the Accounts for the year ended 31 December 2010

12. Directors

The Company has two directors (2009: two), whom did not receive any remuneration for their activities during the year under review or the previous year.

13. Related parties

The Company has relations with three parties.

Deutsche Bank A.G., Frankfurt, Germany, who owns 50% of the shares of the Company. During the period under review, Deutsche Bank A.G. was charged for a service fee for the amount of EUR 40,145 (2009: EUR 151,072). In addition, Deutsche Bank A.G. is the sole bondholder of the Company's issued bonds (see note 6).

Royal Bank Scotland N.V., Amsterdam, The Netherlands, who owns 50% of the shares of the Company, had no transactions with the Company during the year under review.

Equity Trust Co. N.V., Amsterdam, The Netherlands, a trust office, who provides corporate services to the Company, was also one of the Company's directors before resigning in February 2010 and being replaced by Deutsche International Trust Company N.V. During the year under review, Equity Trust Co. N.V. charged the Company EUR NIL (31 December 2009: EUR 70,267) and Deutsche International Trust Company N.V. charged EUR 22,092 (31 December 2009: EUR NIL) for their corporate services.

During the year under review, out of the retained earnings, dividends for a total amount of EUR 103,961 has been distributed to Deutsche Bank Aktiengesellschaft and Royal Bank of Scotland N.V., whereby each received EUR 51,980.

The Management

Johan Smit
Managing Director

Deutsche International Trust Company N.V.
Managing Director

Amsterdam, The Netherlands, 13 April 2011

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Other information

Retained earnings

Article 19 of the Articles of Association provides that the result established shall be at the disposal of the General Meeting of Shareholders. If and to the extent that a loss sustained in any fiscal year is not recovered from a reserve or made up in some other way, no distribution of profit shall be made in subsequent years as long as such loss has not been recovered. Article 19 of the Articles of Association provides that, insofar as there is a profit in the Company, The Board of Directors may declare an interim dividend.

Appropriation of result

The Management proposes that the result for the year be retained.

Auditor's report

The auditor's report is set forth on the following pages.

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To: Management board and shareholders of
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INDEPENDENT AUDITOR'S REPORT

Report on the financial statements

We have audited the accompanying financial statements 2010 of German Public Sector Finance B.V., Amsterdam, which comprise the balance sheet as at December 31, 2010, the profit and loss account for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of these financial statements and for the preparation of the management board report, both in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 auditor's judgment, 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 management, 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.

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Opinion with respect to the financial statements

In our opinion, the financial statements give a true and fair view of the financial position of German Public Sector Finance B.V. as at December 31, 2010 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Amsterdam, April 13, 2011

Grant Thornton Accountants en Adviseurs B.V.



Drs. B.M. Tinge
Registeraccountant

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