

Source Physical Markets Plc  
Directors' report and audited financial  
statements

For the year ended 31 December 2014



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# Directors and other information

## Annual Report and Audited Financial Statements 2014

### Directors

Eimir McGrath (Irish)  
Conor Blake (Irish)

### Registered Office

(As from 6 November 2014)

6<sup>th</sup> Floor  
Pinnacle 2  
Eastpoint Business Park  
Dublin 3  
Ireland

(Until 5 November 2014)

5 Harbourmaster Place  
International Financial Services Centre  
Dublin 1  
Ireland

### Principal Paying Agent

Deutsche Bank AG, London Branch  
Winchester House  
1 Great Winchester Street  
London EC2N 2DB  
United Kingdom

### Administrator & Company Secretary

Deutsche International Corporate Services (Ireland) Limited

(As from 20 October 2014)

6<sup>th</sup> Floor  
Pinnacle 2  
Eastpoint Business Park  
Dublin 3  
Ireland

(Until 19 October 2014)

5 Harbourmaster Place  
International Financial Services Centre  
Dublin 1  
Ireland

### Portfolio Administrator & Account Bank

Wells Fargo Bank, N.A.  
9062 Old Annapolis Road  
Columbia  
Maryland 21045  
United States of America

### Arranger

Source UK Services Limited  
110 Cannon Street  
London EC4N 6EU  
United Kingdom

### Independent Auditors

PricewaterhouseCoopers  
Chartered Accountants and Registered Auditors  
One Spencer Dock  
North Wall Quay  
Dublin 1  
Ireland

### Solicitors & Irish Listing Agent

Maples and Calder  
75 St. Stephen's Green  
Dublin 2  
Ireland

### Trustee

Deutsche Trustee Company Limited  
Winchester House  
1 Great Winchester Street  
London EC2N 2DB  
United Kingdom

### Metal Counterparty & Custodian

JP Morgan Chase Bank, N.A.  
125 London Wall  
London EC2Y 5AJ  
United Kingdom

Registered no: of Company 471344

# Directors' Report

## Annual Report and Audited Financial Statements 2014

The Directors present their annual report and the audited financial statements of Source Physical Markets Plc (the "Company") for the year ended 31 December 2014.

### Principal activities

Source Physical Markets Plc (the "Company") is a public limited liability company, incorporated on 26 May 2009 in Ireland under the Companies Acts 1963 to 2013 and has established the Secured Precious Metals-Linked Certificates Programme (the "Programme") pursuant to which the Company may, from time to time, issue collateralised limited recourse Certificates (the "Certificates") on the terms set out in the prospectus and final terms in respect of the relevant Certificates. The aggregate number of Certificates outstanding under the Programme will not at any time exceed 1,000,000,000.

Certificates may be sold to any one or more of Goldman Sachs International, Morgan Stanley & Co. International Plc, Merrill Lynch International, Virtu Financial Ireland Limited, Flow Traders B.V., IMC Trading B.V., Nomura International Plc, J.P Morgan, Jane Street and Citigroup Global Market Limited (each an 'Authorised Participant' under the terms of the authorised participant agreements). An Authorised Participant may subscribe for Certificates in accordance with the terms of the related Authorised Participant Agreement by either (i) transferring the relevant amount of precious metals via the books and records of the custodian's unallocated accounts (to form part of the mortgaged property) or (ii) making a cash payment in US Dollars of the relevant amount to the cash account, which shall be used to access Precious Metal (to form part of the mortgaged property).

Each Certificate carries a right on redemption of a payment of the cash amount, where cash settlement applies, or the delivery of an amount of Precious Metals

equal to the delivery amount, where physical settlement applies, on the relevant settlement date. In order to effect any redemption where cash settlement applies, the relevant amount of Precious Metals will be sold in order to realise the relevant cash amount(s).

The Certificates are listed on the Irish Stock Exchange, Frankfurt Stock Exchange, Swiss Stock Exchange (SIX), London Stock Exchange and Borsa Italiana.

### Business review and key performance indicators

During the year:

- No new Series were issued;
- the Company made a profit of USD 375 (2013: USD 375);
- the Company issued USD 1,448,371,579 (2013: USD 1,095,150,728) and repaid USD 1,244,598,211 (2013: USD 2,466,134,932) of Certificates;
- the Company's accounts linked to a portfolio of underlying Precious Metals increased due to additions of gold, silver, platinum and palladium amounting to USD 1,448,906,233 (2013: USD 1,095,150,728);
- the Company's interest in accounts linked to a portfolio of underlying Precious Metals reduced due to sale of gold, silver, platinum and palladium amounting to USD 1,251,321,296 (2013: USD 2,474,643,220);
- the financial assets at fair value through profit or loss increased by 9% compared to the reporting year ended 31 December 2013 (2013: decreased by 56%); and
- the financial liabilities at fair value through profit or loss increased by 9% compared to the reporting year ended 31 December 2013 (2013: decreased by 56%);

As at 31 December 2014,

- the Company's total Certificates' indebtedness was USD 1,919,491,086 (2013: USD 1,759,621,604); and
- the net assets were USD 57,762 (2013: USD 57,387).

### Future developments

The Directors expect the present level of activity to be sustained for the foreseeable future.

### Results and dividends for the year and state of affairs at 31 December 2014

The results for the year are set out on page 7. No dividends are recommended by the directors for the year under review (2013: Nil).

### Changes in directors, secretary and registered office

On 20 October 2014, the Company Secretary changed its address from 5 Harbourmaster Place, IFSC, Dublin 1, Ireland to 6th Floor, Pinnacle 2, Eastpoint Business Park, Dublin 3, Ireland.

On 6 November 2014, the registered office of the Company changed from 5 Harbourmaster Place, IFSC, Dublin 1, Ireland to 6th Floor, Pinnacle 2, Eastpoint Business Park, Dublin 3, Ireland.

There have been no other changes in Directors, registered office or secretary during the year.

### Directors, secretary and their interests

Apart from Eimir McGrath who holds 1 share in the Company, none of the other Directors and Secretary who held office on 31 December 2014 hold any shares in the Company at that date, or during the year. The transactions in relation to the Directors have been disclosed under note 17 to the financial statements.

### Risk and uncertainties

The Company is subject to various risks. The principal risks facing the Company are outlined in note 18 to the financial statements.

# Annual Report and Audited Financial Statements 2014

## Subsequent events

All subsequent events are disclosed in note 22 of the financial statements.

## Credit events

There were no credit events noted during the year.

## Corporate Governance Statement

### Introduction

The Company is subject to and complies with Irish Statute comprising the Companies Acts 1963 to 2013 and the Listing rules of the Irish Stock Exchange. The European Communities (Directive 2006/46/EC) Regulations (S.I. 450 of 2009 and S.I. 83 of 2010) (the "Regulations") requires the inclusion of a corporate governance statement in the Directors' Report. The Company does not apply additional requirements in addition to those required by the above. Each of the service providers engaged by the Company is subject to their own corporate governance requirements.

### Financial Reporting Process

The Board of Directors (the "Board") is responsible for establishing and maintaining adequate internal control and risk management systems of the Company in relation to the financial reporting process. Such systems are designed to manage rather than eliminate the risk of failure to achieve the Company's financial reporting objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has established processes regarding internal control and risk management systems to ensure its effective oversight of the financial reporting process. These include appointing the Administrator, Deutsche International Corporate Services (Ireland) Limited, to maintain the accounting records of the Company independently of Source UK Services Limited (the "Arranger") and JP Morgan Chase Bank, N.A. (the "Custodian").

The Administrator is contractually obliged to maintain proper books and records as required by the Corporate Administration agreement. To that end the Administrator performs reconciliations of its records to those of the Arranger and the Custodian. The Administrator is also contractually obliged to prepare for review and approval by the Board the annual report including financial statements intended to give a true and fair view.

The Board evaluates and discusses significant accounting and reporting issues as the need arises. From time to time the Board also examines and evaluates the Administrator's financial accounting and reporting routines and monitors and evaluates the external auditors' performance, qualifications and independence. The Administrator has operating responsibility for internal control in relation to the financial reporting process and the Administrator's report to the Board.

### Risk assessment

The Board is responsible for assessing the risk of irregularities whether caused by fraud or error in financial reporting and ensuring the processes are in place for the timely identification of internal and external matters with a potential effect on financial reporting. The Board has also put in place processes to identify changes in accounting rules and recommendations and to ensure that these changes are accurately reflected in the Company's financial statements. More specifically,

- the Administrator has a review procedure in place to ensure errors and omissions in the financial statements are identified and corrected;

- regular training on accounting rules and recommendations is provided to the accountants, employed by the administrator; and
- accounting bulletins, issued by Deutsche Bank AG, London, being the Principal Paying Agent and Trustee and an entity related to Deutsche International Corporate Services (Ireland) Limited, are distributed monthly to all accountants, employed by the administrator.

### Control activities

The Administrator is contractually obliged to design and maintain control structures to manage the risks which the Board judges to be significant for internal control over financial reporting. These control structures include appropriate division of responsibilities and specific control activities aimed at detecting or preventing the risk of significant deficiencies in financial reporting for every significant account in the financial statements and the related notes in the Company's annual report.

### Monitoring

The Board has an annual process to ensure that appropriate measures are taken to consider and address the shortcomings identified and measures recommended by the independent auditors.

Given the contractual obligations on the Administrator, the Board has concluded that there is currently no need for the Company to have a separate internal audit function in order for the board to perform effective monitoring and oversight of the internal control and risk management systems of the Company in relation to the financial reporting process.

# Annual Report and Audited Financial Statements 2014

## Corporate Governance Statement (continued)

### Capital Structure

No person has a significant direct or indirect holding of securities in the Company. No person has any special rights of control over the company's share capital.

There are no restrictions on voting rights.

### Powers of Directors

The Board is responsible for managing the business affairs of the Company in accordance with the Articles of Association. The Directors may delegate certain functions to the Administrator and other parties, subject to the supervision and direction by the Directors. The Directors have delegated the day to day administration of the Company to the Administrator. The Directors cannot issue or buy back the shares of the Company.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, Irish Statute comprising the Companies Acts, 1963 to 2013. The Articles of Association themselves may be amended by special resolution of the shareholders.

### Audit committee

Statutory audits in Ireland are regulated by the European Communities Regulations, 2010 (S.I. 220 of 2010). According to the regulations, if the sole business of the Irish SPV relates to the issuing of asset backed securities, the SPV is exempt from the requirement to establish an audit committee (under Regulation 91(9) (d) of the Regulations). In this respect, the Company is not required to establish an audit committee.

### Accounting records

The Directors believe that they have complied with the requirements of Section 202 of the Companies Act, 1990 with regard to the books of accounts by employing accounting personnel with the appropriate expertise and by providing adequate resources to the financial function. The books of accounts of the Company are maintained at 6 Floor, Pinnacle 2, Eastpoint Business Park, Dublin 3, Ireland.

### Independent auditors

PricewaterhouseCoopers, Chartered Accountants and Registered Auditors, in accordance with Section 160(2) of the Companies Act, 1963, have signified their willingness to continue in office.

On behalf of the board



Conor Blake  
Director



Eimir McGrath  
Director

Date: 5 March 2015

# Statement of Directors' responsibilities

## Annual Report and Audited Financial Statements 2014

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

Irish company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors prepare the Company financial statements in accordance with International Financial Reporting Standards (IFRSs) and IFRIC interpretations as adopted by the EU.

The Company's financial statements are required by law and IFRSs and IFRIC interpretations as adopted by the EU to present fairly the financial position and performance of the Company. The Companies Acts, 1963 to 2013 provide in relation to such financial statements that references in the relevant parts of those Acts to financial statements giving a true and fair view are references to their achieving a fair presentation.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- ensure that the financial statements comply with IFRSs; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Acts, 1963 to 2013. They are also responsible 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.

The Directors are also required by the Transparency (Directive 2004/109/EC) Regulation 2007 and the Transparency Rules of the Central Bank of Ireland to include a Directors' report containing a fair review of the business and a description of the principal risks and uncertainties facing the Company.

### Directors' statement pursuant to Transparency Regulations

Each of the Directors, whose name and functions are listed on page 1 of the financial statements confirm that, to the best of each person's knowledge and belief:

- they have complied with the above requirements in preparing the financial statements;
- the financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view, of the state of the assets, liabilities, financial position and of the profit of the Company for the year then ended; and
- the Directors' report includes a fair review of the development and performance of the business and the financial position of the Company, together with a description of the principal risks and uncertainties that they face.

On behalf of the board



Conor Blake  
Director



Eimir McGrath  
Director

Date: 5 March 2015



# Independent Auditor's Report to the Members of Source Physical Markets Plc

We have audited the financial statements of Source Physical Markets Plc for the year ended 31 December 2014 which comprise the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity, the Statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is Irish law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

## Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements giving a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Section 193 of the Companies Act, 1990 and for no other purpose. We do not, in giving these opinions, 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.

## Scope of the audit of the financial statements

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

## Opinion on financial statements

In our opinion the financial statements:

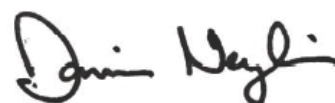
- give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 December 2014 and of its profit and cash flows for the year then ended; and
- have been properly prepared in accordance with the requirements of the Companies Acts 1963 to 2013.

## Matters on which we are required to report by the Companies Acts 1963 to 2013

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion proper books of account have been kept by the Company.
- The financial statements are in agreement with the books of account.
- In our opinion the information given in the Directors' Report is consistent with the financial statements.
- The net assets of the company, as stated in the Statement of financial position, are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2014 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the Company.

## Matters on which we are required to report by exception

We have nothing to report in respect of the provisions in the Companies Acts 1963 to 2013 which require us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.



Damian Neylin  
for and on behalf of  
PricewaterhouseCoopers  
Chartered Accountants and Statutory  
Audit Firm  
Dublin

Date: 5 March 2015

# Financial Statements of the Company

## Annual Report and Audited Financial Statements 2014

### Financial statements of the company

#### Statement of comprehensive income

For the year ended 31 December 2014

	Notes	Year ended 31 December 2014 USD	Year ended 31 December 2013 USD
Net changes in fair value of financial assets designated at fair value through profit or loss	4	(37,704,840)	(897,459,954)
Net changes in fair value of financial liabilities designated at fair value through profit or loss	5	43,903,886	905,459,564
Other expenses	6	(6,199,046)	(8,002,370)
Other income	7	500	3,260
Operating profit before taxation		500	500
Tax on profit on ordinary activities	8	(125)	(125)
Profit for the year		375	375
Increase in net assets attributable to holders of equity shares from operations		375	375

All items dealt with in arriving at the profit for the year ended 31 December 2014 related to continuing operations.

The Company had no recognised gains or losses in the financial year other than those dealt with in the statement of comprehensive income.

On behalf of the board



Conor Blake  
Director



Eimir McGrath  
Director

Date: 5 March 2015

The accompanying notes to the financial statements on pages 11 to 27 form an integral part of these financial statements.

# Annual Report and Audited Financial Statements 2014

## Financial statements of the company

### Statement of financial position

As at 31 December 2014	Notes	31 December 2014 USD	31 December 2013 USD
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	9	235,953	244,244
Other receivables	10	1,587,220	35,674
Financial assets designated at fair value through profit or loss	12	1,919,987,722	1,760,107,625
<b>Total assets</b>		<b>1,921,810,895</b>	<b>1,760,387,543</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Other payables	14	2,262,047	708,552
Financial liabilities designated at fair value through profit or loss	13	1,919,491,086	1,759,621,604
<b>Total liabilities</b>		<b>1,921,753,133</b>	<b>1,760,330,156</b>
<b>Shareholder's Funds - Equity</b>			
Share capital	15	55,512	55,512
Revenue reserves		2,250	1,875
<b>Total equity</b>		<b>57,762</b>	<b>57,387</b>
<b>Total liabilities and equity</b>		<b>1,921,810,895</b>	<b>1,760,387,543</b>

On behalf of the board



Conor Blake  
Director



Eimir McGrath  
Director

Date: 5 March 2015

The accompanying notes to the financial statements on pages 11 to 27 form an integral part of these financial statements.

# Annual Report and Audited Financial Statements 2014

## Financial statements of the company

### Statement of changes in equity

For the year ended 31 December 2014

	Share capital USD	Revenue reserves USD	Total equity USD
Balance as at 1 January 2013	55,512	1,500	57,012
Total comprehensive income for the year			
Profit for the year	-	375	375
Balance as at 31 December 2013	55,512	1,875	57,387
Balance as at 1 January 2014	55,512	1,875	57,387
Total comprehensive income for the year			
Profit for the year	-	375	375
Balance as at 31 December 2014	55,512	2,250	57,762

The accompanying notes to the financial statements on pages 11 to 27 form an integral part of these financial statements.

# Annual Report and Audited Financial Statements 2014

## Financial statements of the company

### Statement of cash flows

For the year ended 31 December 2014	Notes	Year ended 31 December 2014 USD	Year ended 31 December 2013 USD
<b>Cash flows from operating activities</b>			
Profit before taxation		500	500
<b>Adjustments for:</b>			
(Increase)/decrease in other receivables		(1,551,546)	1,965
Increase/(decrease) in other payables		1,553,495	(286,272)
Fair value movement on financial assets designated at fair value through profit or loss	4	37,704,840	897,459,954
Fair value movement on financial liabilities designated at fair value through profit or loss	5	(43,903,886)	(905,459,564)
Purchase of financial assets designated at fair value through profit or loss	12	(127,866,090)	(138,742,309)
Proceeds from disposal of financial assets designated at fair value through profit or loss	12	80,745,029	681,679,485
Tax paid		(125)	(250)
<b>Net cash (used in)/ generated from operating activities</b>		<b>(53,317,783)</b>	<b>534,653,509</b>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of financial liabilities designated at fair value through profit or loss	13	127,866,090	138,742,309
Redemption of financial liabilities designated at fair value through profit or loss	13	(74,556,598)	(673,171,197)
<b>Net cash generated from/(used in) financing activities</b>		<b>53,309,492</b>	<b>(534,428,888)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(8,291)</b>	<b>224,621</b>
Cash and cash equivalents at start of the year		244,244	19,623
<b>Cash and cash equivalents at end of the year</b>	<b>9</b>	<b>235,953</b>	<b>244,244</b>

Non cash transactions in relation to financial assets and financial liabilities are disclosed in notes 12 and 13.

The accompanying notes to the financial statements on pages 11 to 27 form an integral part of these financial statements.

# Annual Report and Audited Financial Statements 2014

## Notes to the financial statements

### 1. General information

Source Physical Markets Plc (the "Company"), is a limited liability company, incorporated on 26 May 2009 in Ireland under the Companies Acts 1963 to 2013 and has established the Secured Precious Metals-Linked Certificates Programme pursuant to which the Company may, from time to time, issue Certificates as set out in the Trust Deed. The aggregate number of Certificates outstanding under the Programme will not at any time exceed 1,000,000,000. The Certificates issued under the Programme will be in a Certificated form and cleared through CREST.

The Company has invested in Gold, Silver, Platinum and Palladium (the "Precious Metals").

The Company has no direct employees.

The Certificates are listed on the Irish Stock Exchange, Frankfurt Stock Exchange, Swiss Stock Exchange (SIX), London Stock Exchange and Borsa Italiana.

### 2. Basis of preparation

#### (A) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and its interpretations as adopted by the EU and as applied in accordance with the Companies Acts 1963 to 2013.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 31 December 2014; the comparative information for the year ended 31 December 2013 presented in these financial statements has been prepared on a consistent basis.

These financial statements have been prepared on a going concern basis.

#### (B) Changes in accounting policies

##### New standards and interpretations

###### *Standards adopted for the first time*

A number of new standards and interpretations are effective for annual periods beginning on or after 1 January 2014. Of these, the following were of relevance to the Company and were considered for adoption:

The amendments to IAS 32 Financial Instruments: Presentation (Offsetting Financial Assets and Financial Liabilities) clarify the offsetting criteria in IAS 32 by revising the guidance on when an entity currently has a legally enforceable right to set-off and when gross settlement is considered to be equivalent to net settlement. Based on the new requirements, the Company assessed that at this time no revisions to its previous approach to offsetting of financial assets and financial liabilities arises in the statement of financial position.

##### Standards, amendments and interpretations that are not yet effective but relevant for the Company's operations

Title	Subject	Mandatory for accounting periods starting
IFRS 9	Financial Instruments	01-Jan-18

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

IFRS 9 will replace IAS 39 Financial Instruments: Recognition and Measurement, it is effective from 1 January 2018. The final version of the standard was published on 24 July 2014. This standard consists of three main phases:

###### *Phase 1: Classification and measurement*

Classification determines how financial assets and financial liabilities are accounted for in financial statements and, in particular, how they are measured on an ongoing basis. IFRS 9 introduces a logical approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements that are complex and difficult to apply. The new model also results in a single impairment model being applied to all financial instruments removing a source of complexity associated with previous accounting requirements.

# Annual Report and Audited Financial Statements 2014

## 2. Basis of preparation (continued)

### (B) Changes in accounting policies (continued)

Standards, amendments and interpretations that are not yet effective but relevant for the Company's operations (continued)

#### *Phase 2: Impairment methodology*

As part of IFRS 9 the IASB has introduced a new, expected loss impairment model that will require more timely recognition of expected credit losses.

#### Phase 3: Hedge accounting

IFRS 9 introduces a substantially-reformed model for hedge accounting with enhanced disclosures about risk management activity.

The Company is currently considering the implications of the new standard and it is impracticable for the Company to quantify the impact of IFRS 9 at this stage.

### (C) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

- Financial assets designated at fair value through profit or loss are measured at fair value; and
- Financial liabilities designated at fair value through profit or loss are measured at fair value.

The methods used to measure fair values are discussed further in note 3(b).

### (D) Functional and presentation currency

The financial statements are presented in US Dollars ("USD") which is the Company's functional currency. Functional currency is the currency of the primary economic environment in which the entity operates. The financial liabilities designated at fair value through profit or loss are primarily denominated in USD. The Directors of the Company believe that USD most faithfully represents the economic effects of the underlying transactions, events and conditions.

### (E) Use of estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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 any future periods affected.

#### Key sources of estimation uncertainty

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in notes 3(b) and 18.

#### Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3(b) "Financial instruments". For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

#### Critical accounting judgements in applying the Company's accounting policies

The Company's accounting policy on fair value measurements is discussed under note 3(b) "Financial Instruments". Critical accounting judgements made in applying the Company's accounting policies in relation to valuation of financial instruments is as follows:

# Annual Report and Audited Financial Statements 2014

## 2. Basis of preparation (continued)

### (E) Use of estimates and judgements (continued)

#### Valuation of financial instruments

The Company measures fair values using the following hierarchy of methods:

- Level 1: Quoted market price in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

## 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

### (A) Foreign currency transaction

Transactions in foreign currencies are translated to the functional currency at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

At each reporting date, monetary items and non-monetary assets and liabilities that are fair valued and are denominated in foreign currencies are translated at the rate prevailing on the statement of financial position. Gains and losses arising on retranslation of financial instruments at fair value through profit or loss are included in the statement of comprehensive income together with respective fair value gains/losses.

### (B) Financial instruments

#### Initial recognition

The Company initially recognises financial assets and liabilities issued on the trade date basis. All other financial assets (including financial assets designated at fair value through profit or loss) and all other financial liabilities (including financial liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

The Company issues Certificates to provide investors with exposure to the performance of the various physical metals. The Certificates, are issued in the form of debt instruments that are backed by fully allocated physical holdings of the relevant metal. A certificate is issued or redeemed when a corresponding amount of physical metal has transferred into or from the allocated accounts maintained by the Custodian.

The Company has designated its holding in physical precious metals at fair value through profit or loss and debt financial liabilities issued at fair value through profit or loss.

#### Classification and measurement of certificates:

The Company designates the certificates issued as financial liabilities at fair value through profit or loss both on initial recognition and on an ongoing basis.

The exchange quoted price of the certificates is determined by reference to the underlying physical metals. Changes in the fair value of the certificates are recognised in the statement of comprehensive income. The certificates have been designated as at fair value through profit or loss in order to eliminate an accounting mismatch, that would otherwise arise with the physical metals, enabling both the certificates and the physical metals to be measured at fair value with gains or losses on both being recognised in the statement of comprehensive income.



# Annual Report and Audited Financial Statements 2014

## 3. Significant accounting policies (continued)

### (B) Financial instruments (continued)

#### Derecognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability. The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

#### Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

#### Subsequent measurement

After initial measurement, the Company measures financial instruments which are classified as at fair value through profit or loss at their fair value. Subsequent changes in the fair value of financial instruments designated at fair value through profit or loss are recognised directly in the statement of comprehensive income. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of financial instruments is based on their quoted market prices on a recognised exchange or sourced from a reputable broker/counterparty, in the case of non-exchange traded instruments, at the reporting date without any deduction for estimated future selling costs.

#### Fair value measurement principles

Financial assets designated at fair value through profit or loss is priced at the current bid price for the Precious Metals using the London PM market price.

If a quoted market price is not available on a recognised stock exchange, the fair value of the financial instruments may be estimated by the Directors based on values obtained from brokers and specialist pricing vendors who may use a variety of valuation techniques such as discounted cash flow techniques, option pricing models or any other valuation technique that provides an estimate of prices obtained should the investment be traded. If other independent prices were available for the investments, the valuation may be different to those presented and those differences could be material. Therefore, the realisable value of the Company's investments may differ significantly from the fair value recorded.

Where discounted cash flow techniques are used, estimated future cash flows are based on the Directors' best estimates and the discount rates. The discount rate used is a market rate at the statement of financial position date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data available at the reporting date. Subsequent changes in the fair value of financial instruments at fair value through profit or loss are recognised in the statement of comprehensive income.

### (C) Financial liability and equity

The financial instruments issued by the Company are treated as equity (i.e. forming part of shareholder's funds) only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital exclude amounts in relation to those shares.

# Annual Report and Audited Financial Statements 2014

## 3. Significant accounting policies (continued)

### (C) Financial liability and equity (continued)

Where a financial instrument that contains both equity and financial liability components exists, these components are separated and accounted for individually under the above policy. The finance cost on the financial liability component is correspondingly higher over the life of the instrument.

Finance payments associated with financial liabilities are dealt with as part of net finance (loss)/gain on debt certificates issued. Finance payments associated with financial instruments that are classified in equity are distributions from the net income attributable to equity holders and are recorded directly in equity.

Financial liabilities are valued at fair value, as detailed in note 3(b).

### (D) Cash and cash equivalents

Cash and cash equivalents includes deposits held at call with banks which are subject to insignificant risk of changes in their fair value, and are used by the Company in the management of its short term commitments.

### (E) Share capital

Share capital is issued in Euro ("EUR"). Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

### (F) Net changes in fair value of financial assets designated at fair value through profit or loss

Net changes in fair value of financial assets designated at fair value through profit or loss relates to movement in prices of Precious Metals and includes all realised and unrealised fair value changes.

### (G) Net changes in fair value of financial liabilities designated at fair value through profit or loss

Net changes in fair value of financial liabilities designated at fair value through profit or loss relates to Certificates issued and includes all realised and unrealised fair value changes.

### (H) Other income and expenses

All income and expenses are accounted for on an accruals basis.

### (I) Tax on profit on ordinary activities

Tax on profit on ordinary activities is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity consistent with the accounting for the item to which it is related.

Current tax is the expected tax payable on the taxable income for the year, using tax rates applicable to the Company's activities enacted or substantively enacted at the reporting date, and adjustment to tax payable in respect of previous years.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### (J) Segmental reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity). The Chief Operating Decision Maker (CODM) of the operating segment is the Board. The CODM is responsible for the Company's entire Series. The Company is a special purpose vehicle whose principal activities are the issuance of Certificates and has invested in Precious Metals. The board of Directors believe that each Series can be treated as a segment as the return on each Series is linked to a different Precious Metal.

## 4. Net changes in fair value of financial assets designated at fair value through profit or loss

	Year ended 31 December 2014 USD	Year ended 31 December 2013 USD
Realised loss on disposal of financial assets designated at fair value through profit or loss	(355,352,073)	(428,833,859)
Unrealised fair value movement on financial assets designated at fair value through profit or loss	317,647,233	(468,626,095)
	<b>(37,704,840)</b>	<b>(897,459,954)</b>

# Annual Report and Audited Financial Statements 2014

## 5. Net changes in fair value of financial liabilities designated at fair value through profit or loss

	Year ended 31 December 2014 USD	Year ended 31 December 2013 USD
Realised gain on redemption of financial liabilities designated at fair value through profit or loss	362,480,792	437,955,998
Unrealised fair value movement on financial liabilities designated at fair value through profit or loss	(318,576,906)	467,503,566
	43,903,886	905,459,564

## 6. Other expenses

	Year ended 31 December 2014 USD	Year ended 31 December 2013 USD
Arranger fees	(6,197,133)	(8,002,370)
Foreign exchange loss	(1,913)	-
	(6,199,046)	(8,002,370)

## 7. Other income

	Year ended 31 December 2014 USD	Year ended 31 December 2013 USD
Corporate benefit	500	500
Other income	-	2,145
Foreign exchange gain	-	615
	500	3,260

## 8. Tax on profit on ordinary activities

	Year ended 31 December 2014 USD	Year ended 31 December 2013 USD
Profit on ordinary activities before tax-current tax	500	500
Current tax at 12.5%	(63)	(63)
Effect of:		
Income taxed at higher rates	(62)	(62)
Current tax charge	(125)	(125)

The Company is charged to corporation tax at a rate of 25% (2013: 25%). The Company will continue to be taxed at 25% in accordance with Section 110 of the Taxes Consolidation Act 1997.

## 9. Cash and cash equivalents

	31 December 2014 USD	31 December 2013 USD
Wells Fargo	222,407	229,100
Bank of Ireland	13,546	15,144
Cash at bank	235,953	244,244

Cash balances are held with Wells Fargo Bank, N.A (94%) and Bank of Ireland (6%). Refer to note 18 for credit risk and currency risk disclosures relating to cash and cash equivalents.

## 10. Other receivables

	31 December 2014 USD	31 December 2013 USD
Certificate receivables*	1,542,879	-
Other income receivable	43,591	34,674
Corporate benefit receivable	750	1,000
	1,587,220	35,674

\* As at 31 December 2014, the issuances of 13,000 Certificates @ USD 118.68 each for Series 1- Secured Gold-Linked Certificates due 2100 remained unsettled (2013: Nil).

Refer to note 18 for credit risk and currency risk disclosures relating to other receivables.

## 11. Segmental reporting

The split of financial assets designated at fair value through profit or loss and financial liabilities designated at fair value through profit or loss by Series are shown in notes 12 and 13 to the financial statements respectively. All of the financial assets designated at fair value through profit or loss consist of physical precious metal holdings. Details of the fair value movement by Series and the year end unit price by Series are included in note 12 which are the key measures of performance for each Series. The split of assets, liabilities and return by Series is prepared on a consistent basis with the measurement and recognition principles of IFRSs. Cash and cash equivalents, other receivables and other payables at the reporting dates have not been split by Series. The Company is domiciled in Ireland.

## Annual Report and Audited Financial Statements 2014

### 11. Segmental reporting (continued)

Each Series is structured to generate fair value gains on the Certificates which are linked to the return on the respective underlying metals in accordance with the Series Prospectus. As such the Directors deem all other profit and loss movements to be immaterial to the Series and have not included further disclosures. The Certificates of each Series are listed on the Irish Stock Exchange, Frankfurt Stock Exchange, Swiss Stock Exchange, London Stock Exchange and Borsa Italiana are available for purchase at the request of the Authorised Participants or the Company. The geographical location of the Precious Metals is the United Kingdom. The Company has no assets classified as non-current assets.

There were no changes in the reportable segments during the year. There were no transactions between reportable segments during the year.

### 12. Financial assets designated at fair value through profit or loss

	31 December 2014 USD	31 December 2013 USD
Precious metals	1,919,987,722	1,760,107,625
At start of year	1,760,107,625	4,037,060,071
<i>Cash transactions</i>		
Additions during the year	127,866,090	138,742,309
Disposals during the year	(80,745,029)	(681,679,485)
<i>Non-cash transactions</i>		
Additions during the year	1,321,040,143	956,408,419
Disposals during the year	(1,170,576,267)	(1,792,963,735)
Realised loss on disposal	(355,352,073)	(428,833,859)
Unrealised fair value movement	317,647,233	(468,626,095)
At end of year	1,919,987,722	1,760,107,625

Series Name	Units outstanding	NAV per unit	Fair value	Units outstanding	NAV per unit	Fair value
	31 December 2014	31 December 2014	31 December 2014 USD	31 December 2013	31 December 2013	31 December 2013 USD
Gold	1,395,093	1,199.25	1,673,065,136	1,222,578	1,201.50	1,468,927,153
Silver	839,806	15.97	13,411,706	340,966	19.50	6,648,837
Platinum	98,841	1,210.00	119,597,438	121,759	1,358.00	165,348,981
Palladium	142,749	798.00	113,913,442	167,627	711.00	119,182,654
			<u>1,919,987,722</u>			<u>1,760,107,625</u>

## Annual Report and Audited Financial Statements 2014

### 12. Financial assets designated at fair value through profit or loss (continued)

The financial assets are secured in favour of Deutsche Trustee Company Limited for the benefit of itself and the Certificate holders. The non-cash transactions relate to physical delivery of precious metals against delivery of Certificates.

The Precious Metals have upon initial recognition been designated at fair value through profit or loss.

The Precious Metals are held as collateral for Certificates issued by the Company.

The carrying value of the assets of the Company represents their maximum exposure to the credit risk. The credit risk is eventually transferred to the Certificate holders.

Refer to note 18 for credit risk and currency risk disclosures relating to the holding of Precious Metals.

### 13. Financial liabilities designated at fair value through profit or loss

	31 December 2014 USD	31 December 2013 USD
Secured ETC Index Linked	1,919,491,086	1,759,621,604
At start of year	1,759,621,604	4,036,065,372
<i>Cash transactions</i>		
Issued during the year	127,866,090	138,742,309
Redemptions during the year	(74,556,598)	(673,171,197)
<i>Non-cash transactions</i>		
Issued during the year	1,320,505,489	956,408,419
Redemptions during the year	(1,170,041,613)	(1,792,963,735)
Realised gain on redemption	(362,480,792)	(437,955,998)
Unrealised fair value movement in liability	318,576,906	(467,503,566)
At end of year	1,919,491,086	1,759,621,604

The non-cash transactions relate to physical delivery of Precious Metals to meet the redemption requests on notes or as payment for subscriptions.

Series Name	Units outstanding 31 December 2014	NAV per unit 31 December 2014	Fair value 31 December 2014 USD	Units outstanding 31 December 2013	NAV per unit 31 December 2013	Fair value 31 December 2013 USD
Series 1 - Secured Gold-Linked Certificates due 2100	14,172,902	118.02	1,672,651,768	12,384,066	118.58	1,468,538,511
Series 2 - Secured Silver-Linked Certificates due 2100	851,790	15.74	13,406,892	344,492	19.29	6,646,629
Series 3 - Secured Platinum-Linked Certificates due 2100	1,002,540	119.25	119,557,707	1,230,181	134.37	165,293,776
Series 4 - Secured Palladium-Linked Certificates due 2100	1,447,884	78.65	113,874,719	1,693,597	70.35	119,142,688
			<u>1,919,491,086</u>			<u>1,759,621,604</u>

## Annual Report and Audited Financial Statements 2014

### 13. Financial liabilities designated at fair value through profit or loss (continued)

	31 December 2014 USD	31 December 2013 USD
<b>Maturity Analysis</b>		
Less than 1 year	1,919,491,086	1,759,621,604
1-2 years	-	-
2-5 years	-	-
Over 5 years	-	-
	<b>1,919,491,086</b>	<b>1,759,621,604</b>

The financial liabilities have been classified as having a maturity of less than 1 year as the Secured Precious Metals-Linked Certificates can be redeemed at the option of the Certificate holders. The final maturity date of the Secured Precious Metals-Linked Certificates is 31 December 2100.

The Company's obligations under the Certificates issued are secured by financial assets held as stated in note 12.

The price of the Certificates is directly linked to the price of the Metals to which they are linked.

In the event that the accumulated losses prove not to be recoverable during the life of the Certificates issued, this will reduce the obligation to the holders of the Certificates issued by the Company.

The Certificates are listed on the Irish Stock Exchange, Frankfurt Stock Exchange, Swiss Stock Exchange (SIX), London Stock Exchange and Borsa Italiana.

### 14. Other payables

	31 December 2014 USD	31 December 2013 USD
Investment payable*	1,542,879	-
Fees payable to arranger	496,761	486,145
Other payables	222,407	222,407
	<b>2,262,047</b>	<b>708,552</b>

\* As at 31 December 2014, the acquisition of 1,279.34 units of gold @ USD 1,206 each remained unsettled (2013: Nil).

Refer to note 18 for currency risk disclosures relating to other payables.

### 15. Share capital

	31 December 2014	31 December 2013
<b>Authorised:</b>	EUR	EUR
40,000 Ordinary shares of EUR 1 each	40,000	40,000
<b>Issued and fully paid up:</b>	USD	USD
40,000 Ordinary shares of EUR 1 each	55,512	55,512
	<b>31 December 2014 EUR</b>	<b>31 December 2013 EUR</b>
Deutsche International Finance (Ireland) Limited	39,994	39,994
Elizabeth Kelly	1	1
David McGuinness	1	1
Rhys Owens	1	1
Adrian Bailie	1	1
Michael Carroll	1	1
Eimir McGrath	1	1
	<b>40,000</b>	<b>40,000</b>

### 16. Ownership of Company

The principal shareholder of the Company is Deutsche International Finance (Ireland) Limited which holds 39,994 shares in Trust. A Board of Directors has been appointed at the date of inception to manage the day to day affairs of the Company. The Board have considered who the ultimate controlling party of the Company is. The Board have concluded that no individual party involved in the structure as identified on page 1 has the power to alter, in any way, the strategic investment objective of the Series as set out in the Series' prospectus. Substantially all the risks and rewards of the Company are transferred to the Certificate holders.

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## 17. Related party transactions

Both Directors, Conor Blake and Eimir McGrath are employees of Deutsche International Corporate Services (Ireland) Limited, which is the administrator of the Company and a related Company of Deutsche International Finance (Ireland) Limited. During the year, the Company incurred a fee of EUR 22,500 (2013: EUR 22,500) relating to administration services provided by Deutsche International Corporate Services (Ireland) Limited. Conor Blake, as director of the Company, has an interest in this fee in his capacity as director of Deutsche International Corporate Services (Ireland) Limited. All expenses are settled by the arranger. Management fees paid to the Arranger amounted to USD 6,197,133 during the year (2013: USD 8,002,370).

The Directors are of the view that there are no other related party transactions requiring disclosures. The Directors received no remuneration from the Company in the year ended 31 December 2014 (31 December 2013: Nil).

## 18. Financial risk management

### *Risk management framework*

The Company has exposure to the following risks from its use of financial instruments:

- Operational risk;
- Credit risk;
- Market risk; and
- Liquidity risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk and the Company's management of capital.

### **Operational risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel and infrastructure, and from external factors other than credit, markets and liquidity issues such as those arising from legal and regulatory requirements and generally accepted standards to corporate behaviour.

Operational risk arises from all of the Company's operations. The Company was incorporated with the purpose of engaging in those activities outlined in note 1. All management and administration functions are outsourced to Deutsche International Corporate Services (Ireland) Limited. Deutsche Bank AG, London Branch acts as the Company's principal paying agent as at 31 December 2014. As at 31 December 2014, Wells Fargo Bank, N.A. acts as the portfolio administrator.

### **Credit risk**

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's precious metals-linked assets. The Company's principal financial assets are cash and cash equivalents and financial assets designated at fair value through profit or loss, which represents the Company's maximum exposure to credit risk. The carrying amount of financial assets represents the maximum credit exposure.

The maximum exposure to the credit risk at the reporting date was:

	31 December 2014 USD	31 December 2013 USD
Cash and cash equivalents	235,953	244,244
Other receivables	1,587,220	35,674
Financial assets designated at fair value through profit or loss	1,919,987,722	1,760,107,625
	<b>1,921,810,895</b>	<b>1,760,387,543</b>

### *Credit quality of financial assets*

The financial assets consist of physical holding of Precious Metals which are held by JP Morgan. The Standard & Poor's credit rating of JP Morgan is A-1 (2013: A-1). As the financial assets are linked to the physical Precious Metals, the Company has a minimum credit risk attached to the assets in the allocated account. However JP Morgan has no obligation to insure the Precious Metals credited to the unallocated account against any risks.

# Annual Report and Audited Financial Statements 2014

## 18. Financial risk management (continued)

### Credit risk (continued)

#### Credit quality of financial assets (continued)

At 31 December 2014, the balances on the unallocated accounts were as follows:

	31 December 2014 USD	31 December 2013 USD
Gold unallocated account	139,943	445,301
Silver unallocated account	2,918	14,261
Platinum unallocated account	15,919	5,512
Palladium unallocated account	4,048	43,909
	<b>162,828</b>	<b>508,983</b>

The Precious Metals is secured in favour of Deutsche Trustee Company Limited for the benefit of itself and the Certificate holders.

### Concentration risk

The financial instruments held by the Company and concentration risk of each is outlined below:

**Collateral:** Financial assets held by the Company relates to precious metals.

**Liabilities:** Financial liabilities held by the Company represent Secured, Limited Recourse Certificates.

	31 December 2014 USD	31 December 2013 USD
Financial assets designated at fair value through profit or loss	1,919,987,722	1,760,107,625
Financial liabilities designated at fair value through profit or loss	(1,919,491,086)	(1,759,621,604)

### Other receivables

Other receivables mainly include certificates receivables and income receivable from the arranger.

### Cash and cash equivalents

The Company held cash and cash equivalents of USD 235,953 as at 31 December 2014 (2013: USD 244,244) which represents its maximum credit exposure on these assets. The cash and cash equivalents are held, on an unsecured basis, with bank and financial institution counterparties, which are rated by Standard & Poor as follows:

Rating	31 December 2014 USD	31 December 2013 USD
Bank of Ireland	B	B
Wells Fargo Bank NA	A-1+	A-1+

The maximum exposure to credit risk for investments at the reporting date by geographic region was:

	31 December 2014 USD	31 December 2013 USD
United Kingdom	1,919,987,722	1,760,107,625
	<b>1,919,987,722</b>	<b>1,760,107,625</b>

### Market risk

Market risk is the risk that changes in market prices of the Precious Metals will affect the Company's income or the value of its holdings of financial instruments. The Certificate holders are exposed to the market risk of the assets portfolio. Market risk embodies the potential for both gains and losses and price risk.

#### (i) Interest rate risk

Interest rate risk is the risk that the Company does not receive enough interest from the financial assets to secure interest payments on the financial liabilities. The Certificates issued and the financial assets do not bear any interest. There is some interest rate risk associated with cash held at bank. However, it is not considered significant, therefore no sensitivity analysis has been included.

#### Sensitivity analysis

Given the Company is not exposed to significant interest rate risk, no sensitivity analysis has been performed.



# Annual Report and Audited Financial Statements 2014

## 18. Financial risk management (continued)

### Market risk (continued)

#### (ii) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company's exposure to currency risk is not significant and limited to share capital issued of EUR 40,000 (USD 55,512) and cash and cash equivalents with Bank of Ireland of EUR 11,197 (USD 13,546) (2013: EUR 11,020 (USD 15,144)). All other financial assets and financial liabilities are denominated in USD.

#### Sensitivity analysis

The Directors confirm that any movement in foreign exchange currency will not have a material impact on the assets and liabilities of the Company. Therefore no sensitivity analysis has been included.

The following significant exchange rates have been applied during the year:

	31 December 2014	31 December 2013
EUR - USD	1.2098	1.3742

#### (iii) Price risk

Price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. The Company does not consider price risk to be a significant risk to the Company as any fluctuation in the value of financial assets at fair value through profit or loss held by the Company will be borne by the Certificate holders.

The contractual maturity profile of financial liabilities as 31 December 2014 is as follows:

	Carrying amount USD	Gross contractual cash flows USD	Less than 1 year USD	1 to 2 years USD	2 to 5 years USD	More than 5 years USD
Financial liabilities designated at fair value						
through profit or loss	(1,919,491,086)	(1,919,491,086)	(1,919,491,086)	-	-	-
Other payables	(2,262,047)	(2,262,047)	(2,262,047)	-	-	-
	(1,921,753,133)	(1,921,753,133)	(1,921,753,133)	-	-	-

The carrying amount and the gross contractual cashflows are equal to the fair value of each liability as stated in the statement of financial position.

#### Sensitivity analysis

Any fluctuation in the price of Precious Metals will impact on the value attributable to the Certificate holders.

However any changes in the quoted prices of the financial assets at fair value through profit or loss would not have any effect on the equity or net profit or loss of the Company as any fair value fluctuations in Precious Metals prices are ultimately borne by the Certificate holders.

Hence, assuming all other items to be constant, any increase/(decrease) in the market price of Precious Metals at 31 December 2014 would have an equal % increase/(decrease) in the value of Certificates issued.

#### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company limits its exposure to liquidity risk given the Company's ability to realise the Precious Metals in cash. All substantial risks and rewards associated with the financial assets are ultimately borne by the Certificate holders.

The financial liabilities are carried at fair value through profit or loss. The ultimate amount repaid to the Certificate holders will depend on the proceeds from the collateral.

# Annual Report and Audited Financial Statements 2014

## 18. Financial risk management (continued)

### Liquidity risk (continued)

The contractual maturity profile of financial liabilities as 31 December 2013 is as follows:

	Carrying amount USD	Gross contractual cash flows USD	Less than 1 year USD	1 to 2 years USD	2 to 5 years USD	More than 5 years USD
Financial liabilities						
designated at fair value						
through profit or loss	(1,759,621,604)	(1,759,621,604)	(1,759,621,604)	-	-	-
Other payables	(708,552)	(708,552)	(708,552)	-	-	-
	(1,760,330,156)	(1,760,330,156)	(1,760,330,156)	-	-	-

### Accounting classifications and fair values

#### Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are shown as follows:

	At amortised cost 31 December 2014 USD	At fair value through profit or loss 31 December 2014 USD	Designated at fair value through profit or loss 31 December 2014 USD	Total Fair value 31 December 2014 USD
<b>Assets</b>				
Cash and cash equivalents	-	235,953	-	235,953
Other receivables	1,587,220	-	-	1,587,220
Financial assets designated at fair value through profit or loss	-	-	1,919,987,722	1,919,987,722
	1,587,220	235,953	1,919,987,722	1,921,810,895
<b>Liabilities</b>				
Other payables	2,262,047	-	-	2,262,047
Financial liabilities designated at fair value through profit or loss	-	-	1,919,491,086	1,919,491,086
	2,262,047	-	1,919,491,086	1,921,753,133

	At amortised cost 31 December 2013 USD	At fair value through profit or loss 31 December 2013 USD	Designated at fair value through profit or loss 31 December 2013 USD	Total Fair value 31 December 2013 USD
<b>Assets</b>				
Cash and cash equivalents	-	244,244	-	244,244
Other receivables	35,674	-	-	35,674
Financial assets designated at fair value through profit or loss	-	-	1,760,107,625	1,760,107,625
	35,674	244,244	1,760,107,625	1,760,387,543
<b>Liabilities</b>				
Other payables	708,552	-	-	708,552
Financial liabilities designated at fair value through profit or loss	-	-	1,759,621,604	1,759,621,604
	708,552	-	1,759,621,604	1,760,330,156

# Annual Report and Audited Financial Statements 2014

## 18. Financial risk management (continued)

### Accounting classifications and fair values (continued)

#### Fair values hierarchy

The Company's financial assets, derivative financial instruments and financial liabilities issued are carried at fair value on the statement of financial position. Usually the fair value of the financial instruments can be reliably determined within a reasonable range of estimates. The carrying amounts of all the Company's financial assets and financial liabilities at the reporting date approximated their fair values.

The Company's financial instruments carried at fair value are analysed below by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

Fair values of financial assets and financial liabilities that are traded in active markets, Level 1, are based on quoted market prices or dealer price quotations. For all other financial instruments the Company determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

Level 2 prices uses widely recognised valuation models for determining the fair value of common and more simple financial instruments such as interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives, e.g. interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex Level 3 instruments proprietary valuation models are used which usually are developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Examples of instruments involving significant unobservable inputs include certain over the counter derivatives and certain securities for which there is no active market. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and selection of appropriate discount rates.

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## 18. Financial risk management (continued)

Accounting classifications and fair values (continued)

Fair values hierarchy (continued)

At year end, the carrying amounts of financial assets and financial liabilities issued by the Company which fair values were determined directly, in full or in part, by reference to published price quotations and determined using valuation techniques are as follows:

	31 December 2014			Total USD
	Level 1 USD	Level 2 USD	Level 3 USD	
Financial assets designated at fair value through profit or loss	1,919,987,722	-	-	1,919,987,722
Financial liabilities designated at fair value through profit or loss	-	(1,919,491,086)	-	(1,919,491,086)
	1,919,987,722	(1,919,491,086)	-	496,636

	31 December 2013			Total USD
	Level 1 USD	Level 2 USD	Level 3 USD	
Financial assets designated at fair value through profit or loss	1,760,107,625	-	-	1,760,107,625
Financial liabilities designated at fair value through profit or loss	-	(1,759,621,604)	-	(1,759,621,604)
	1,760,107,625	(1,759,621,604)	-	486,021

Although the Directors believe that their estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value as fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument.

For recognised fair values measured using significant unobservable inputs, changing one or more assumptions used to reasonably possible alternative assumptions would not have any effect on the profit or loss or on equity as any change in fair value

of the financial assets will be borne by the Certificate holders due to the limited recourse nature of the debt issued by the Company.

The valuation inputs for the financial assets are based on quoted market prices in active markets.

The Precious Metals-Linked Certificates are exchange traded and there is trading in the Certificates. As such, the financial liabilities are classified as Level 2 in the fair value hierarchy.

## 19. Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The directors consider the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values. The fair value hierarchy of these financial assets and liabilities are as follows:

	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
	31 December 2014	31 December 2014	31 December 2014	31 December 2014
<b>Financial assets</b>				
Cash and cash equivalents	235,953	-	-	235,953
Other receivables	-	1,587,220	-	1,587,220
<b>Financial liabilities</b>				
Other payables	-	(2,262,047)	-	(2,262,047)
	235,953	(674,827)	-	(438,874)

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### 19. Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required) (continued)

	Level 1 USD 31 December 2013	Level 2 USD 31 December 2013	Level 3 USD 31 December 2013	Total USD 31 December 2013
<b>Financial assets</b>				
Cash and cash equivalents	244,244	-	-	244,244
Other receivables	-	35,674	-	35,674
<b>Financial liabilities</b>				
Other payables	-	(708,552)	-	(708,552)
	244,244	(672,878)	-	(428,634)

### 20. Capital risk management

The Company is a special purpose vehicle set up to issue Certificates for the purpose of making investments as defined under the programme memorandum.

Share capital of EUR 40,000 was issued in line with Irish Company Law and is not used for financing the investment activities of the Company.

The Company is not subject to any other externally imposed capital requirements.

### 21. Operating expenses

All costs associated with the Company are borne by Source UK Services Limited, London, including the corporate administration fee of EUR 22,500 (2013: EUR 22,500) and audit fees of EUR 23,901 (2013: EUR 23,070) respectively.

As at 31 December 2014, the amount payable to the Arranger is USD 719,133 (2013: USD 708,552).

Auditors' remuneration (excluding VAT)	Year ended 31 December 2014 USD	Year ended 31 December 2013 USD
Statutory audit	28,915	31,703
Tax advisory services	8,953	8,125
	37,868	39,828

There were no other assurance services, tax advisory services or other non audit services performed by PricewaterhouseCoopers Ireland as auditor of the Company.

No director fees were paid during the year.

### 22. Subsequent events

There has been no significant event that requires disclosure since the year-end up to the date of signing of this report.

### 23. Approval of financial statements

The board of Directors approved these financial statements on 5 March 2015.

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