



22 September 2011

The Manager
Company Announcements Office
Australian Stock Exchange Limited
20 Bridge Street
SYDNEY NSW 2000

Deutsche Bank AG
ABN 13 064 165 162
Deutsche Bank Place
Level 16, corner of Hunter & Phillip Streets
Sydney NSW 2000 Australia
GPO Box 7033 Sydney NSW 2001

Tel: 61 2 8258 1234
Fax: 61 2 8258 1101

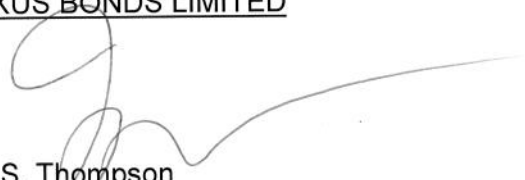
Direct: 61 2 8258 2364

Dear Sir/Madam

2011 FINANCIAL REPORT

Attached please find the 2011 Financial Report to 30 June 2011 on behalf of Nexus Bonds Limited.

Yours faithfully
NEXUS BONDS LIMITED


Ian S. Thompson
Company Secretary

Att

Nexus Bonds Limited

ABN 23 101 744 389

**Financial report for the year ended
30 June 2011**

Nexus Bonds Limited

Directors' report

The directors present their report together with the financial report of Nexus Bonds Limited ("the Company") for the year ended 30 June 2011 and the auditor's report thereon.

Directors

The directors of the Company at any time during or since the end of the financial year are:

Name and Qualifications	Experience and special responsibilities
Mr Richard J Nettleton LLB	A solicitor with over 40 years legal experience. A director of a number of companies including BNY Trust Australia Limited and Marathon Asset Management (Australia) Limited. Director since 19 August 2002.
Mr Stephen J Treanor	A financial consultant who has advised numerous corporations on debt financing alternatives and risk management. He has extensive expertise in the securitisation of financial assets and is a director of several associated special funding corporations. In addition to a lengthy career in commercial banking in the United States he worked for Moody's Investors Service until 1993 where he held various roles including managing director of its Australasian operations. Director since 19 August 2002.
Mr Peter A G Pynes	Peter Pynes has in excess of 18 years experience in capital markets. He has previously worked at Deutsche Bank as a Director, Global Markets where he gained extensive knowledge of structured debt product as well as capital raising and syndication. Peter is a director of several unlisted public investment companies. Director since 23 September 2009.

Directors' meetings

The number of directors' meetings and number of meetings attended by each of the directors of the Company during the financial year are:

	Meetings Held	Meetings Attended
Mr R J Nettleton	6	5
Mr S J Treanor	6	6
Mr P A G Pynes	6	6

Company Secretary

Ian Thompson, BEc was appointed to the position of Company Secretary on 23 January 2003. He has worked in a range of roles including Research and Policy Officer, Senior Administration Officer and Assistant Company Secretary in the State Superannuation Board, Local Government Superannuation Board, Public Authorities Board, State Superannuation Investment and Management Corporation and Axiom Funds Management Limited prior to being appointed as Company Secretary to various Group companies of Deutsche Bank in 2000.

Nexus Bonds Limited

Directors' report

Principal activities

The principal activities of the Company from its establishment on 19 August 2002 has been the issuance of portfolio linked notes (i.e. notes linked to the creditworthiness of a portfolio of companies), the placement of note proceeds on deposit, and entering into portfolio agreements.

There have been no note issuances during the year and no other significant changes in the nature of the activities of the Company since establishment.

Review and result of operations

The loss after income tax amounted to **(\$99,674)** (2010: \$4,704). Total assets of the Company amounted to \$55,326,915 (2010: \$84,895,672). Nexus Portfolio Linked Floating Rate Note Series (NXBHC) matured and was fully repaid on 14 December 2010.

Apart from the above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

State of affairs

In the opinion of the Directors there were no significant changes in the state of affairs of the Company that occurred during the financial year under review.

Environmental regulation

The Company's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation.

Events subsequent to balance sheet date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

Directors Interests and Benefits

Except as disclosed in this report or in the notes to this report, since the end of the previous financial year no director has received or become entitled to receive any benefit because of a contract made by the Company or a related entity with a director or with a firm of which a director is a member, or with an entity in which the director has a substantial interest.

Likely developments

The provision of information regarding likely developments in the operations of the Company and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Company.

Indemnification of officers and auditors

The Company has agreed to indemnify the following current and former directors of the Company, Mr R J Nettleton, Mr S J Treanor and Mr P A G Pynes against all liabilities to another person (other than the Company) that may arise from their positions as directors of the Company, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

Nexus Bonds Limited
Directors' report

Dividends

No dividends have been paid or proposed since establishment.

Rounding of Amounts

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and director's report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Auditor's independence declaration

A copy of the auditors' independence declaration is set out on page 6 and forms part of the Directors' report for the year ended 30 June 2011. There were no non-audit services performed.

Remuneration report (audited)

The Directors and Company Secretary are the key management personnel of the Company. The names of each person holding the position of director of the Company during the financial year are Messrs RJ Nettleton, SJ Treanor and PAG Pynes. DW O'Neill was a director in the 2010 year and resigned on 23 September 2009.

PAG Pynes and his associates own indirectly 410 units of Nexus Topaz 4 Notes issued by the Company.

No remuneration is linked to performance and therefore there is no impact on performance or shareholder wealth in the current year or in the last 5 years.

Nexus Bonds Limited

Directors' report

Remuneration of key management personnel (audited)

The directors do not receive performance related remuneration. Directors' fees cover all main board activities. Details of the nature and amount of each major element of remuneration of each director of the Company ("specified directors") are:

	Year	Short-term employment benefit			Post-employment		Equity compensation	Other compensation		Total \$
		Salary & fees (A) \$	STI cash bonus \$	Non-monetary benefits \$	Super-annuation benefits \$	Pre-scribed benefits \$	Value of options \$	Termination benefits \$	Insurance premiums \$	
Specified directors										
<i>(Non-executive)</i>										
Mr R J Nettleton	2011	35,000	-	-	-	-	-	-	-	35,000
	2010	40,000	-	-	-	-	-	-	-	40,000
Mr D W O'Neill	2011	-	-	-	-	-	-	-	-	-
	2010	12,266	-	-	1,104	-	-	-	-	13,370
Mr S J Treanor	2011	32,110	-	-	2,890	-	-	-	-	35,000
	2010	36,697	-	-	3,303	-	-	-	-	40,000
Mr P A G Pynes	2011	32,110	-	-	2,890	-	-	-	-	35,000
	2010	28,151	-	-	2,534	-	-	-	-	30,685
Total all specified directors	2011	99,220	-	-	5,780	-	-	-	-	105,000
	2010	117,114	-	-	6,941	-	-	-	-	124,055

Directors' fees were agreed in 2003 and are only updated for new tranches. Directors' fees are fixed and not related to the performance of the Company. The Company Secretary is not remunerated by the Company

Operating expenses incurred by the Company are paid by the Operating agent, Deutsche Bank AG. The operating agent is reimbursed for these expenses to the extent that there are funds available after repayment to bondholders.

Notes in relation to the table of specified director's remuneration

(A) Salary and fees are for directors' duties in addition to an additional fee based on issuances. The fee for the issuance is agreed with the director at the time the new trade is done. There were no new issuances in 2011 (2010: nil).

Executive directors or executives

There are no executive directors or executives in the Company.

Dated at Sydney this 21st day of September 2011.

Signed in accordance with a resolution of the directors:


Director



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Nexus Bonds Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2011 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Shaun Kendrigan
Partner

Sydney

21 September 2011

Nexus Bonds Limited
Statement of Comprehensive Income
For the year ended 30 June 2011

	Note	2011 \$'000	2010 \$'000
Interest income	2	788	2,461
Interest expense	2	(762)	(1,956)
Net interest income		26	505
Net trading income	2	-	-
Other income		34	-
Administrative and other expenses	2	(160)	(498)
(Loss) / Profit before income tax		(100)	7
Income tax expense	3(a)	-	(2)
		(100)	5
(Loss) / Profit for the period		(100)	5
Other comprehensive income		-	-
Total comprehensive income		(100)	5
Profit attributable to owners of the company		(100)	5

The above statement of comprehensive income should be read in conjunction with the accompanying notes set out on pages 11 to 29.

Nexus Bonds Limited
Statement of Financial Position
As at 30 June 2011

	Note	2011 \$'000	2010 \$'000
ASSETS			
Cash and cash equivalents	4	3	279
Derivative financial instruments	6	-	156
Receivables	5	15	35,086
Financial assets at fair value through profit and loss	7	<u>55,308</u>	<u>49,375</u>
Total assets		<u>55,326</u>	<u>84,896</u>
LIABILITIES			
Trade and other payables	8	16	187
Current tax liabilities	3(b)	-	2
Derivative financial instruments	6	-	156
Interest-bearing liabilities	9	-	35,074
Financial liabilities at fair value through profit and loss	10	<u>55,308</u>	<u>49,375</u>
Total liabilities		<u>55,324</u>	<u>84,794</u>
Net assets		<u>2</u>	<u>102</u>
EQUITY			
Share capital	11	-	-
Retained profit		<u>2</u>	<u>102</u>
Total equity		<u>2</u>	<u>102</u>
Total equity attributable to equity holders of the company		<u>2</u>	<u>102</u>

The above statement of financial position should be read in conjunction with the accompanying notes set out on pages 11 to 29.

Nexus Bonds Limited
Statement of changes in equity
For the year ended 30 June 2011

	Note	2011 \$'000	2010 \$'000
Total equity at the beginning of the year		<u>102</u>	<u>97</u>
Total comprehensive income		<u>(100)</u>	<u>5</u>
Total equity at the end of the year		<u>2</u>	<u>102</u>

The above statement of changes in equity should be read in conjunction with the accompanying notes set out on pages 11 to 29.

Nexus Bonds Limited**Cash flow statement**

For the year ended 30 June 2011

	Note	2011 \$'000	2010 \$'000
Cash flows from operating activities			
Cash payments in the course of operations		(298)	(372)
Interest received		854	2,525
Derivative premium received		506	2,744
Interest paid		(1,336)	(4,618)
Income tax paid		(2)	(1)
Net cash (outflow)/inflow from operating activities	14(ii)	<u>(276)</u>	<u>278</u>
Cash flows from investing activities			
Proceeds from loans		<u>35,000</u>	<u>70,000</u>
Net cash inflow from investing activities		<u>35,000</u>	<u>70,000</u>
Cash flows from financing activities			
Repayment of note upon maturity		<u>(35,000)</u>	<u>(70,000)</u>
Net cash outflow from financing activities		<u>(35,000)</u>	<u>(70,000)</u>
Net (decrease)/ increase in cash and cash equivalents		<u>(276)</u>	<u>278</u>
Cash and cash equivalents at the beginning of the year		279	1
Cash and cash equivalents at the end of the year	14(i)	<u>3</u>	<u>279</u>

The above cash flow statement should be read in conjunction with the accompanying notes set out on pages 11 to 29.

Nexus Bonds Limited
Notes to the financial statements
30 June 2011

1. Summary of significant accounting policies

Nexus Bonds Limited ("the Company") is a company domiciled in Australia. This financial report was authorised for issue by the Directors on 21st September 2011.

The significant policies which have been adopted in the preparation of this financial report are:

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ("AASB") of the Australian Accounting Standards Board and the Corporations Act 2001. The financial reports of the Company also comply with International Financial Reporting Standards ("IFRS") and the interpretations adopted by the International Accounting Standards Board.

(b) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2011, but have not been applied in preparing the financial report.

- *AASB 9 Financial Instruments, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9.* AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 will become mandatory for the Company's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 or earlier. The Company has not yet determined the potential effect of the standard.
- *AASB 124 Related Party Disclosures* (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The amendments, which will become mandatory for the Company's 30 June 2012 financial statements, are not expected to have any impact on the financial statements.
- *AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13* explains how to measure fair value when required to by other IFRSs. It does not introduce new fair value measurements, nor does it eliminate the practicability exceptions to fair value that currently exist in certain standards. The Company has not yet determined the potential effect of the standard.

Nexus Bonds Limited
Notes to the financial statements
30 June 2011

1. Summary of significant accounting policies (continued)

c) Basis of preparation of the annual financial report

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the periods presented unless otherwise stated. The financial report is presented in Australian dollars, which is the Company's functional and presentation currency.

The financial report has been prepared on the basis of historical costs except that derivative financial instruments and financial instruments designated at fair value through profit and loss are stated at their fair value.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and Director's Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The preparation of this financial report in conformity with AASB requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The areas involving a higher degree of judgement or complexity, or areas where assumption and estimates are significant to the financial report are the valuation of financial instruments measured at fair value (refer to note 6, 7, 9 and 10).

(d) Revenue recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST).

Interest from interest-bearing assets and liabilities, including financial instruments designated at fair value through profit and loss, is recognised on an amortised cost basis over the life of the asset or liability based on the constant effective yield reflected in the terms of the contract.

Financial instruments at fair value through profit and loss: Net trading income comprises realised and unrealised gains and losses from derivatives and other financial instruments at fair value through profit and loss. Derivative premium is treated as realised gains and losses on derivatives.

(e) Income Tax

Income tax on the statement of comprehensive income for the periods presented comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Nexus Bonds Limited
Notes to the financial statements
30 June 2011

1. Summary of significant accounting policies (continued)

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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 reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(f) Cash and cash equivalents

Cash includes cash on hand and at bank and short-term deposits at call.

(g) Receivables

Loans and receivables are initially recognised at fair value on the date that they are originated and subsequently measured at amortised cost using the effective interest method, less any impairment losses.

(h) Payables

Payables include amounts to be paid in the future for goods or services received and are initially recognised at fair value and subsequently measured at amortised cost.

(i) Interest-bearing liabilities

Interest-bearing liabilities are classified as other financial liabilities and are recognised initially at fair value, net of the fair value of embedded derivatives. Subsequent to initial recognition, they are stated at amortised cost with interest recognised as interest expense, using the effective interest method.

Nexus Bonds Limited
Notes to the financial statements
30 June 2011

1. Summary of significant accounting policies (continued)

(j) Financial instruments at fair value through profit and loss

This category has two sub-categories: financial assets and liabilities held for trading and those designated at fair value through profit and loss at inception. Derivatives are categorised as held for trading unless they are designated as hedges.

(i) Financial assets at fair value through profit and loss

The credit linked deposit designated at fair value through profit and loss is initially recognised at fair value. Subsequent to initial recognition, it is stated at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the Statement of Comprehensive Income as Net trading income. Fair value is determined by reference to the market price of the related Nexus 4 Topaz Notes, or the value determined by use of a pricing model if a quoted market price is not available, on the basis that it is an offsetting risk position.

(ii) Financial liabilities at fair value through profit and loss

The Nexus 4 Topaz Notes are designated at fair value through profit and loss and are recognised initially at fair value. Subsequent to initial recognition, they are stated at fair value with the gain or loss on re-measurement to fair value recognised immediately in the Statement of Comprehensive Income as Net trading income. Fair value is calculated based on the mid price quoted on the ASX if an active market exists for the Note. If an active market does not exist, management establishes fair value by use of a valuation technique, such as a pricing model that incorporates market data and discounted cash flow techniques.

(iii) Derivatives

The Company is exposed to credit risk from its activities of issuing portfolio agreements. The Company has not adopted hedge accounting under AIFRS. Therefore, all derivatives held for economic hedging purposes are accounted for as trading instruments.

Derivatives are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the Statement of Comprehensive Income as Net trading income. Fair value is the estimated amount that the entity could receive or pay to terminate the swap at the Balance sheet date, using pricing models incorporating market data and discounted cash flow techniques.

Nexus Bonds Limited
Notes to the financial statements
30 June 2011

1. Summary of significant accounting policies (continued)

(j) Financial instruments at fair value through profit and loss (continued)

(iv) Embedded Derivatives

The interest-bearing liabilities issued by the Company are determined to contain embedded derivatives that must be bifurcated and recognised at fair value if the instrument is not designated as a financial instrument at fair value through profit and loss. These derivatives may have a fair value of zero at the date of initiating the transaction. The change in fair value of bifurcated derivatives will substantially or fully offset the change in fair value of other derivatives transacted by the Company. The portion of any coupon payments made on interest-bearing liabilities that relate to an embedded derivative that has been recognised separately are included in the determination of the fair value of the derivative and therefore not recognised within interest expense.

(k) Impairment

The carrying amounts of the Company's assets are reviewed at each reporting date to determine whether there is any indication of impairment. Significant receivables are individually assessed for impairment. Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred.

(l) Administrative and other expenses

Services fees arise under a Services Deed whereby a servicer has been appointed to administer the Company. The Services Deed includes the provision of general administrative support and assistance as well as the payment of various fees and expenses, including audit fees on behalf of the Company. These transactions are on normal commercial terms.

Operating expenses incurred by the Company is paid by the Operating agent, Deutsche Bank AG. The operating agent is reimbursed for these expenses to the extent that there are funds available after repayment to bondholders.

Nexus Bonds Limited
Notes to the financial statements
30 June 2011

2. Profit before income tax expense

Profit before income tax expense has been arrived at after crediting/(expensing) the following items:

		2011 \$'000	2010 \$'000
Interest income			
- Cash		10	6
- Loans – related party	(i)	778	2,455
		<u>788</u>	<u>2,461</u>
Net trading income / (expense)			
- Derivatives – related party	(ii)	(612)	(10,470)
- Embedded derivatives	(iii)	612	10,470
- Financial assets at fair value – related party	(iv)	5,933	7,702
- Financial liabilities at fair value	(iv)	(5,933)	(7,702)
		<u>-</u>	<u>-</u>
Interest expense			
- Interest-bearing liabilities	(v)	(762)	(1,956)
Administrative and other expenses	(vi)	(160)	(498)

Explanation of significant components of profit before income tax:

- (i) Loans: Interest income consists of interest earned on deposits or loans to related parties.
- (ii) Derivatives: Derivative premium of \$456,390 (2010: \$2,618,048) and gains of (\$155,527) (2010: \$(7,852,402)) on portfolio agreements were recognised during the period as Net trading income.
- (iii) Embedded derivatives: Imputed derivative premium paid of \$(456,390) (2010: \$(2,618,048)) and losses of \$155,527 (2010: \$7,852,402) were recognised during the period. The loss recognised on embedded derivatives that are recognised separately from the host debt contract, fully offsets the gain recognised on derivatives.
- (iv) The credit linked deposits and related Nexus 4 Topaz Notes (NXHBD) are remeasured to their fair value resulting in offsetting trading income and expense of \$5,932,900 (2010: \$7,702,500). The movement in fair value consists of the unrealised movement attributable to market price movements, net of the increase in accrued interest of \$Nil (2010: \$Nil). As a result of credit events during the year no further interest is payable on NXHBD.
- (v) Interest expense recognised on Interest-bearing liabilities is the total amount due to note holders in relation to the current period of \$(1,218,672) (2010: \$4,473,152). This excludes imputed derivative premium of \$(456,390) (2010: \$(2,618,048)) on the embedded derivatives, which is recognised separately in trading income (refer iii above).
- (vi) Administrative expenses consist mostly of directors' fees and operating agent fees.

Nexus Bonds Limited
Notes to the financial statements
30 June 2011

3. Income tax

(a) Income tax expense

	2011 \$'000	2010 \$'000
Income tax expense	-	2
	-	2
Total income tax expense is made up of:		
Current income tax provision	-	2
(Loss) / Profit from continuing operations before income tax expense	(100)	7
Tax at Australian tax rate 30%	-	(2)
Income tax expense	-	(2)

The temporary differences related to the remeasurement of financial instruments at fair value give rise to deferred tax income and deferred tax expense. The balances fully offset and have been net to \$nil in accordance with the Company's accounting policies. Deferred tax assets of \$30,000 have not been recognised in respect of tax losses for the year because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

(b) Current tax liabilities

Provision for current income tax

Movements during the year were as follows:

Balance at beginning of the year	2	1
Income tax paid during the year	(2)	(1)
Income tax expense	-	2
Balance at end of the year	-	2

4. Cash and cash equivalents

Current account	3	279
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Cash assets are interest bearing and held with a large bank which has an investment grade credit rating. The carrying value of cash assets approximates its fair value.

5. Receivables

Short term trade receivables

Other receivables	15	11
Loans – related party	-	35,075
	15	35,086

The ultimate credit risk on the loans is Deutsche Bank AG.

Nexus Bonds Limited
Notes to the financial statements
30 June 2011

6. Derivative financial instruments

	2011 \$'000	2010 \$'000
Portfolio credit default swaps – related party	-	156
Portfolio credit default swaps – embedded derivatives separated from notes issued (refer note 9) – related party	-	(156)

In prior periods the Company has entered into portfolio agreements, also referred to as portfolio credit default swaps, with Deutsche Bank AG which expose the Company to the creditworthiness of a portfolio of companies ('reference entities'). The Company may be obligated to make payments to the Counterparty in the event of one of the reference entities under the portfolio credit default swap defaulting. The fair value of the portfolio agreements is determined by using pricing models incorporating market data and discounted cash flow techniques. The portfolio credit swap matured during the year in conjunction with the maturity of Nexus C Notes.

7. Financial assets at fair value through profit and loss

Credit linked deposit – related party	55,308	49,375
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The Company has entered into a credit linked deposit with Deutsche Bank AG which exposes the Company to the creditworthiness of a portfolio companies ('reference entities'). Interest is receivable based on a floating interest rate which reflects changes in the credit market's view of the reference entities and changes in market interest rates.

As a result of credit events in the prior period, the Income Factor used to calculate interest payable on the credit linked deposit has reduced to zero. As such, no further interest is payable. The deposit matures on 23 June 2015. The deposit has been designated as a financial asset at fair value through profit and loss. The deposit and credit linked notes are managed and their performance monitored on a fair value basis (refer Note 10).

8. Trade and other payables

Accrued management fees – related party	16	187
	16	187

Nexus Bonds Limited
Notes to the financial statements
30 June 2011

9. Interest-bearing liabilities

	2011 \$'000	2010 \$'000
Notes issued	-	35,074

Notes issued

The Company's ability to pay these enhanced returns are a result of Note-holders being exposed to the creditworthiness of a portfolio of companies. Interest amounts and principal outstanding may be reduced if one or more of the above companies experiences a severe weakening in its financial position to the extent that its senior unsecured debt may not be repaid in full when due.

For accounting purposes, the notes issued are deemed to contain an embedded derivative which is split out and accounted for separately, if the note is not designated at fair value through profit and loss (refer Notes 2 and 10). An embedded derivative is a feature that can modify the cash flows of that contract in a similar way to a derivative contract. The nature of the derivative that is split from the note issued is a credit derivative with the same terms as the corresponding portfolio agreement. Interest payments will generally be sourced from interest received from Deutsche Bank by the Company under Deposit Agreements and derivative premium receipts from Portfolio Agreements.

Each series of notes is legally segregated. Note-holders of one series have no claim to any assets of the Company in respect of any other series, including in the event of liquidation. Under the Master Trust Deed executed by the Company, Permanent Nominees (Aust) Ltd and Deutsche Bank AG, Permanent is appointed Security Trustee to hold the benefit of the Master Trust Deed for the secured creditors of the Company, including note holders of each series. A single fixed and floating charge over the assets of the Company is granted to Permanent as security for specified payments to be made the Company, including amounts owing under each series of notes, amounts owing to Deutsche Bank, Permanent and others.

Nexus Portfolio Linked Floating Rate Note Series (NXBHC) matured and was fully repaid on 14 Dec 2010.

Nexus Bonds Limited
Notes to the financial statements
30 June 2011

10. Financial liabilities at fair value through profit and loss

	2011 \$'000	2010 \$'000
Credit linked note – Nexus4 Topaz Notes	55,308	49,375

Nexus Topaz 4 Notes: Notes issued amounting to \$79,000,000 that are 10 year, interest-bearing securities paying interest at a floating rate of 2.60% over the 180 day Bank Bill Rate for the first half year period. Thereafter interest is payable based on a floating interest rate which reflects changes in the credit market's view of companies in the portfolio as well as changes in the market interest rates.

As a result of credit events in the prior period, the Income Factor used to calculate interest payable on Nexus 4 Notes has reduced to zero. As such, no further interest is payable. The notes mature on 23 June 2015. These notes have been designated as financial liabilities at fair value through profit and loss. The notes and related credit linked deposit are managed and their performance monitored on a fair value basis (refer Notes 2 & 7).

11. Share capital

Issued and paid-up share capital

1 ordinary share, fully paid

\$	\$
1	1

There have been no movements in share capital since incorporation.

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid. The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

12. Segment Information

Geographical segment

The Company's operations are conducted solely in Australia.

Business segment

The Company operates solely in the financial services sector.

The board of directors reviews the financial performance of the Company based on the overall performance of portfolio linked notes as a whole rather than individual note series.

13. Auditors Remuneration

Fees for services rendered to the Company by the auditors are borne by Deutsche Bank AG, a related party of the Company. The audit fee payable by Deutsche Bank AG on the Company's behalf for the year ended 30 June 2011 is \$21,699 (2010: \$15,840). There were no non-audit services performed.

Nexus Bonds Limited
Notes to the financial statements
30 June 2011

14. Notes to the Cash flow statement

(i) Reconciliation of cash

For the purposes of the Cash flow statement, cash includes cash on hand and at bank and short-term deposits at call, net of outstanding bank overdrafts repayable on demand. Cash as at the end of the financial year as shown in the Cash flow statement is reconciled to the related items in the statement of financial position as follows:

	2011 \$'000	2010 \$'000
Cash assets	3	279

(ii) Reconciliation of (loss) / profit after income tax to net cash provided by operating activities

(Loss)/Profit after tax	(100)	5
<u>Changes in assets and liabilities:</u>		
Decrease in interest receivable	75	70
Decrease in derivative premium receivable	49	126
(Increase) / Decrease in other receivables	(4)	46
Decrease in interest payable	(123)	(146)
(Decrease) / Increase in other payables	(171)	176
(Decrease) / Increase in current tax liabilities	(2)	1
Net cash (used in) / provided by operating activities	(276)	278

15. Dividends

No dividends were paid during the year (2010: nil).

16. Taxation

Income tax expense for the financial period presented is the expected tax payable on the taxable income for the year, calculated as the estimated average annual effective income tax rate applied to the profit before income tax for the year. Current tax for the current and prior periods is classified as a current liability to the extent that it is unpaid.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amounts of assets and liabilities, using the estimated average annual effective income tax rate for the financial period. The primary component of the entity's recognised deferred tax assets and liabilities include temporary differences related to the remeasurement of derivatives at fair value.

Nexus Bonds Limited
Notes to the financial statements
30 June 2011

17. Additional financial instruments disclosure

Risk Management

Risk is inherent in the entity's operating activities but is managed through a process of ongoing identification, measurement and monitoring. The independent risk controls process does not include business risk such as changes in environment, technology and industry which are part of the entity's strategic planning process.

The Company transacts financial instruments in respect of each series of notes issued (refer Notes 9 & 10). Each series of notes is legally segregated and the Company is a bankruptcy remote entity, such that its obligations under each series of notes is limited in recourse to the assets of that series. Note-holders of one series have no claim to any assets of the Company in respect of any other series, including in the event of liquidation. The Company is not exposed to the financial risks arising from the financial instruments of each series, as those risks are ultimately borne by the note holders of each series.

The Board of Directors is responsible for the overall risk management approach and for approving the risk and strategies and principles.

The entity has risk management policies for the following exposures:

Credit Risk

Credit risk is the risk that the entity will incur a loss as a result that a counterparty fails to meet its obligations to the entity when due. The Company's credit risk is limited to its net assets held as cash with large banks that have an investment grade credit rating. As noted above, all credit risk in respect of financial assets transacted by the Company in respect of each legally segregated series of notes is ultimately borne by the noteholders. There is no credit risk exposure to the Company for those financial instruments.

Maximum credit risk exposure

The table below shows the maximum exposure to the credit risk for the components of the balance sheet, including derivatives, that is borne by the noteholders. The company has no credit risk exposure to these financial instruments that is not ultimately borne by noteholders. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements:

	Note	2011 \$'000	2010 \$'000
Derivative financial instruments	6	-	156
Receivables	5	15	35,086
Financial assets at fair value through profit and loss	7	55,308	49,375

Where financial instruments are recorded at fair value, the amounts above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

The financial assets transacted by the Company are neither past due nor impaired.

Nexus Bonds Limited
Notes to the financial statements
30 June 2011

17. Additional financial instruments disclosure (continued)

Liquidity Risk

Liquidity risk is the risk that the entity will be unable to meet payment obligations when they fall due. The liquidity risk in respect of financial assets and liabilities transacted by the Company in respect of each legally segregated series of notes is ultimately borne by the noteholders.

The contractual maturity of all liabilities held are outlined below:

30 June 2011

	Note	At call \$'000	Less than 1 year \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
Financial Liabilities						
Payables – management fees	8	(16)	-	-	-	(16)
Derivatives	6	-	-	-	-	-
Financial liabilities at fair value	10	-	-	(55,308)	-	(55,308)
Interest bearing liability-bond		-	-	-	-	-
		(16)	-	(55,308)	-	(55,324)

30 June 2010

	Note	At call \$'000	Less than 1 year \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
Financial Liabilities						
Payables – management fees	8	(187)	-	-	-	(187)
Derivatives	6	-	(156)	-	-	(156)
Financial liabilities at fair value	10	-	-	(49,375)	-	(49,375)
Interest bearing liability-bond		-	(35,843)	-	-	(35,843)
		(187)	(35,999)	(49,375)	-	(85,561)

Market Risk

Market risk is the risk that the fair value of future cash flows of the financial instruments held by the entity will fluctuate due to changes in equity prices, credit spreads or interest rates. The market risk in respect of financial assets and liabilities transacted by the Company in respect of each legally segregated series of notes is ultimately borne by the noteholders. There is no market risk exposure to the Company for those financial instruments that is not ultimately borne by noteholders.

Changes to the fair value as a result of financial assets have offsetting impact from the changes in fair value of financial liabilities. As a result, any reasonable change in interest rates or equity prices would not affect the profit and loss and equity of the Company.

Nexus Bonds Limited
Notes to the financial statements
30 June 2011

17. Additional financial instruments disclosure (continued)

Interest rate risk exposures

The Company's exposure to interest rate risk is limited to the exposure to interest rate risk for classes of financial assets and financial liabilities, which is ultimately borne by the noteholders, and is set out below:

30 June 2011	Note	Fixed interest maturing in:				Non-interest bearing	Total
		Floating interest rate	1 year or less	Over 1 to 5 years	Over 5 years		
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial Assets							
Cash assets	4	3	-	-	-	-	3
Receivables	5	-	-	-	-	15	15
Financial assets at fair value	7	55,308	-	-	-	-	55,308
		<u>55,311</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15</u>	<u>55,326</u>
Financial Liabilities							
Trade and other payables	8	-	-	-	-	(16)	(16)
Financial liabilities at fair value	10	(55,308)	-	-	-	-	(55,308)
		<u>(55,308)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(16)</u>	<u>(55,324)</u>
30 June 2010							
30 June 2010	Note	Fixed interest maturing in:				Non-interest bearing	Total
		Floating interest rate	1 year or less	Over 1 to 5 years	Over 5 years		
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial Assets							
Cash assets	4	279	-	-	-	-	279
Derivatives	6	-	156	-	-	-	156
Receivables	5	-	35,075	-	-	11	35,086
Financial assets at fair value	7	49,375	-	-	-	-	49,375
		<u>49,654</u>	<u>35,231</u>	<u>-</u>	<u>-</u>	<u>11</u>	<u>84,896</u>
Financial Liabilities							
Trade and other payables	8	(187)	-	-	-	-	(187)
Derivatives	6	-	(156)	-	-	-	(156)
Financial liabilities at fair value	10	(49,375)	-	-	-	-	(49,375)
Interest bearing liability-bond	9	-	(35,074)	-	-	-	(35,074)
		<u>(49,562)</u>	<u>(35,230)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(84,792)</u>

Nexus Bonds Limited
Notes to the financial statements
30 June 2011

17. Additional financial instruments disclosure (continued)

Fair values of financial assets and liabilities

	2011		2010	
	Carrying value \$'000	Fair value \$'000	Carrying value \$'000	Fair value \$'000
Financial Assets				
Cash and cash equivalents	3	3	279	279
Trade receivables	-	-	-	-
Other receivables	15	15	11	11
Derivative financial instruments	-	-	156	156
Trade receivables	-	-	35,075	35,075
Financial assets at fair value through profit	55,308	55,308	49,375	49,375
	55,326	55,326	84,896	84,896
Financial Liabilities				
Trade and other payables	(16)	(16)	(187)	(187)
Derivative financial instruments	-	-	(156)	(156)
Interest-bearing liabilities	-	-	(35,074)	(35,074)
Financial liabilities at fair value through	(55,308)	(55,308)	(49,375)	(49,375)
	(55,324)	(55,324)	(84,792)	(84,792)

Monetary financial assets and liabilities are determined by valuing them at the present value of contractual future cash flows discounted at applicable market yields. The carrying amounts of cash, amounts payable or receivable with financial institutions and trading securities approximate their fair values.

The fair value of the financial assets and liabilities at fair value through profit and loss have been calculated using the mid price on the ASX as at 30 June 2011 and 2010, net of amounts reported separately for embedded derivatives. The fair values of derivatives are calculated based on valuation techniques where the model inputs are observable in the market.

Nexus Bonds Limited
Notes to the financial statements
30 June 2011

17. Additional financial instruments disclosure (continued)

Fair values of financial assets and liabilities

The carrying values of all financial instruments are stated at fair values shown in the Statement of Financial Position.

The following table shows an analysis of financial assets and liabilities recorded at fair value, between those fair values based on quoted market prices, those involving valuation techniques where all model inputs are observable in the market and those where valuation techniques involve the use of non-market observable inputs.

Fair value hierarchy

Financial assets and liabilities carried at fair value are categorised under a three-level hierarchy as follows, depending on the fair value measurement applied:

Level 1: The fair value of instruments that are quoted in active markets are determined using quoted prices where they represent those at which regularly and recently occurring transactions take place.

Level 2: Instruments classified in this category are measured using valuation techniques with observable parameters.

Level 3: Instruments classified in this category have a parameter input or inputs which are unobservable and which have a more than significant impact on either the fair value of the instrument or the profit and loss of the instrument.

	Level 1 Published prices in active markets	Level 2 Valuation techniques with observable parameters	Level 3 Valuation techniques with unobservable parameters	TOTAL
30 June 2011	\$'000	\$'000	\$'000	\$'000
Financial Assets	-	55,308	-	55,308
Financial Liabilities	(55,308)	-	-	(55,308)
30 June 2010				
Financial Assets	-	49,531	-	49,531
Financial Liabilities	(49,375)	(156)	-	(49,531)

There were no transfers between levels in 2011 (2010: nil).

18. Capital Management

The Company holds nominal capital of \$3,030 (2010: \$101,704). The Company does not have any obligations to comply with any additional regulatory capital requirements.

Nexus Bonds Limited
Notes to the financial statements
30 June 2011

19. Related parties

Key Management Personnel

Directors

The Directors are the key management personnel of the Company. The names of each person holding the position of director of the Company during the financial year are Messrs RJ Nettleton, SJ Treanor and PAG Pynes.

PAG Pynes and his associates own indirectly 410 units (2010: 410 units) of Nexus Topaz 4 Notes issued by the Company.

Other than the above, no director has entered into a material contract with the Company during the financial period.

Non-Key Management Personnel

Transactions

The Company has significant transactions and a management agreement with Deutsche Bank AG (Sydney). Balances with related parties are detailed in notes 2, 5, 6, 7 and 8.

Deutsche Bank AG holds 30,493,100 units (2010: 30,493,100 units) of Nexus Topaz 4 Notes issued by the Company.

For the financial period ended 30 June 2011 the Company received from Deutsche Bank AG (Sydney) interest of \$778,295 (2010: \$2,454,659) and premiums under the portfolio agreements of \$456,390 (2010: \$2,618,048).

For the year ended 30 June 2011 the Company incurred expenses of \$60,091 (2010: \$497,330) in relation to a management fee for services provided to it by Deutsche Bank AG (Sydney). Of this amount, \$15,907 (2010: \$173,220) remains unpaid at period end.

Operating expenses incurred by the Company are paid by the Operating agent, Deutsche Bank AG. The operating agent is reimbursed for these expenses to the extent that there are funds available after repayment to bondholders.

Nexus Bonds Limited
Notes to the financial statements
30 June 2011

20. Director and executive disclosures

Remuneration of specified directors

Non-executive directors

Non-executive directors do not receive performance related remuneration. Directors' fees cover all main board activities.

DW O'Neill was a director in the 2010 year and resigned on 23 September 2009.

Details of the nature and amount of each major element of remuneration of each director of the Company ("specified directors") are:

	Year	Short-term employment benefit			Post-employment		Equity compensation	Other compensation		Total \$
		Salary & fees (A) \$	STI cash bonus \$	Non-monetary benefits \$	Super-annuation benefits \$	Pre-scribed benefits \$	Value of options \$	Termination benefits \$	Insurance premiums \$	
Specified directors										
<i>(Non-executive)</i>										
Mr R J Nettleton	2011	35,000	-	-	-	-	-	-	-	35,000
	2010	40,000	-	-	-	-	-	-	-	40,000
Mr D W O'Neill	2011	-	-	-	-	-	-	-	-	-
	2010	12,266	-	-	1,104	-	-	-	-	13,370
Mr S J Treanor	2011	32,110	-	-	2,890	-	-	-	-	35,000
	2010	36,697	-	-	3,303	-	-	-	-	40,000
Mr P A G Pynes	2011	32,110	-	-	2,890	-	-	-	-	35,000
	2010	28,151	-	-	2,534	-	-	-	-	30,685
Total all specified directors	2011	99,220	-	-	5,780	-	-	-	-	105,000
	2010	117,114	-	-	6,941	-	-	-	-	124,055

Notes in relation to the table of specified director's remuneration

(A) Salary and fees are for directors' duties in addition to an additional fee for each new issuance. The fee for the issuance is agreed with the director at the time the new trade is done.

Executive directors or executives

There are no executive directors or executives in the Company.

Nexus Bonds Limited
Notes to the financial statements
30 June 2011

21. Additional Information

Nexus Bonds Limited, is incorporated and domiciled in Australia.

The registered office:

Level 16
Deutsche Bank Place
126 Phillip Street
Sydney NSW 2000

The number of employees at year end was Nil.

22. Events subsequent to balance date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.


Nexus Bonds Limited
Notes to the financial statements
30 June 2011

Nexus Bonds Limited
Directors' declaration

1. In the opinion of the directors of Nexus Bonds Limited ('the Company'):
 - (a) the financial statements and notes and the Remuneration report in the Directors' report, set out on pages 7 to 29, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2011 and of their performance, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The directors draw attention to Note 1(a) to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.
3. The directors have been given the declarations required by Section 295A of the Corporations Act 2001.

Dated at Sydney this 21st day of September 2011

Signed in accordance with a resolution of the directors:



Director



Independent auditor's report to the members of Nexus Bonds Limited

Report on the financial report

We have audited the accompanying financial report of Nexus Bonds Limited (the Company), which comprises the statement of financial position as at 30 June 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes 1 to 22 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Company's financial position and of its performance.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

- (a) the financial report of Nexus Bonds Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1.

Report on the remuneration report

We have audited the Remuneration Report included in pages 4 to 5 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Nexus Bonds Limited for the year ended 30 June 2011, complies with Section 300A of the *Corporations Act 2001*.



KPMG



Shaun Kendrigan
Partner

Sydney

21 September 2011