

INVESTKREDIT FUNDING LIMITED
ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31st DECEMBER 2013

INVESTKREDIT FUNDING LIMITED

Annual Report and Financial Statements 2013

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INVESTKREDIT FUNDING LIMITED

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements for the year ended 31st December 2013.

INCORPORATION

The Company was incorporated in Jersey, Channel Islands on 18th October 2002.

ACTIVITIES DURING THE YEAR

The principal activity of the Company is the issue of Limited Recourse Notes (the "LRN Notes") in separate series to the value of up to EUR100,000,000. To date, the Company has made one issue of Notes in an amount of EUR50,000,000. The proceeds of this issue were used to purchase a Certificate of Deposit from Investkredit International Bank plc. The amount of Certificate of Deposit was used by Investkredit International Bank plc to purchase Ergänzungskapital Notes ("EKN Notes") issued by Österreichische Volksbanken-Aktiengesellschaft ("ÖVAG"), in Vienna, Austria. The Certificate of Deposit was cancelled on the 25th February 2013 and from this date, the Company now holds the EKN Notes directly. The market for the Notes issued by the Company is limited to highly sophisticated investors who understand the risks and rewards associated with the unpredictable cash flows arising there from. The Company's Notes are dually listed on the Vienna Stock Exchange and the Frankfurt Stock Exchange.

Since the Financial Statements for the year ended 31 December 2012, the following activities took place:

1. On 25th February 2013, Investkredit International Bank plc transferred the ownership of the EKN Notes issued by Oesterreichische Volksbanken-Aktiengesellschaft (ÖVAG) to the Company and cancelled the Certificate of Deposit between the Company and Investkredit International Bank plc.
2. On 15th March 2013, Investkredit International Bank plc transferred the share capital in the Company to its parent company, ÖVAG.
3. ÖVAG, the parent company, invoked article 3.2 of the Support Agreement where payment of interest is restricted if this exceeds their Annual Surplus ('Jahresüberschuss' annual surplus prior to transfer to/from reserves pursuant to § 23 sec 7 subsec 2 of the Bankwesengesetz) and therefore no interest was either received or paid during the period ended 31st December 2013.

INVESTKREDIT FUNDING LIMITED

REPORT OF THE DIRECTORS (continued)

BUSINESS REVIEW

The loss for the year amounted to EUR 44,520 (2012: EUR 4,217 profit). On the 28th November 2013 The Board of Management of ÖVAG announced that due to expected negative results at a single-entity level until the end of the 2015 business year, interest payments on supplementary capital held by the company are not be anticipated at least until 2016 (for business years 2014 and 2015). The impact of this on the Company is detailed in note 2 to the financial statements.

The Directors do not recommend a dividend for the year. (2012: nil)

The results for the year are shown in the Statement of Comprehensive Income (page 7). No other material events have occurred in the year end to 31 December 2013 other than the activities as noted on page 1.

PRINCIPAL RISKS AND UNCERTAINTIES

The key risks to the business relate to the use of financial instruments. The specific risks arising from the Company's use of financial instruments and the directors' strategies to manage those risks are disclosed in Note 12.

DIRECTORS

The Directors who held office during the year and to date are:-

Noel Curmi (Resigned 28/05/2013)
Herbert Skok (Resigned 28/05/2013)
Francois Chesnay (Resigned 01/06/2013)
Karl Kinsky (Appointed on 28/05/2013)
Alfred Hikade (Appointed on 28/05/2013)
Chris Ruark (Appointed 01/06/2013)

INDEPENDENT AUDITORS

KPMG Channel Islands Limited has expressed their willingness to continue in office as the Company's auditors.

REGISTERED OFFICE

13 Castle Street, St. Helier
Jersey, Channel Islands. JE4 5UT

BY ORDER OF THE BOARD



Authorised Signatory
Sanne Secretaries Limited
Secretary
Date: 25 April 2014

INVESTKREDIT FUNDING LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are responsible for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards.

Company law requires the directors to prepare financial statements for each financial year which gives a true and fair view of the state of affairs of the company and of the profit or loss of the Company for that year. In preparing these 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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy, at any time, the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud, errors and other irregularities.

STATEMENT OF PERSONS RESPONSIBLE WITHIN THE ISSUER

With regard to Regulation 2004/10/EC of the European Union (the "EU Transparency Directive"), the Directors of the Company whose names appear on page 2 confirm to the best of their knowledge that the financial statements for the year ended 31st December 2013 give a true and fair view of the assets, liabilities and profit or loss of the Company as required by the applicable accounting standards. The Report of the Directors gives a fair review of the development of the Company's business, financial position and the important events that have occurred during the financial period and their impact on the financial statements. The principal risks and uncertainties faced by the Company are disclosed on page 2 and note 12 of these financial statements.

Signed on behalf of the Board of Directors



Christopher Ruark
25 April 2014



KPMG Channel Islands Limited
37 Esplanade
St Helier
Jersey JE4 8WQ
Channel Islands

Independent auditor's report to the members of Investkredit Funding Limited

We have audited the financial statements of Investkredit Funding Limited (the "company") for the year ended 31 December 2013 which comprise the Statement of Financial Position, the Statement of Comprehensive Income, 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 applicable law and International Financial Reporting Standards as issued by the International Accounting Standards Board.

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable 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.

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 Report of the Directors 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.



KPMG Channel Islands Limited
37 Esplanade
St Helier
Jersey JE4 8WQ
Channel Islands

Independent auditor's report to the members of Investkredit Funding Limited – continued

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2013 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board; and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the company; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Andrew P. Quinn
for and on behalf of KPMG Channel Islands Limited
Chartered Accountants and Recognized Auditor
29 April 2014

The maintenance and integrity of the websites are the responsibility of the directors or other responsible party; the work carried out by auditors does not involve consideration of these matters and accordingly, KPMG Channel Islands Limited accepts no responsibility for any changes that may have occurred to the financial statements or our audit report since 29 April 2014. KPMG Channel Islands Limited has carried out no procedures of any nature subsequent to 29 April 2014 which in any way extends this date.

Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. The directors shall remain responsible for establishing and controlling the process for doing so, and for ensuring that the financial statements are complete and unaltered in any way.

INVESTKREDIT FUNDING LIMITED

STATEMENT OF FINANCIAL POSITION**AS AT 31st DECEMBER 2013**

	Notes	2013 EUR	2012 EUR
ASSETS			
Non Current Assets			
Available-for-sale financial asset	2	8,418,170	8,596,160
Current Assets			
Trade and Other Receivables	4	420	11,422
Cash and Cash Equivalents	3	80,417	112,377
TOTAL ASSETS		<u>8,499,007</u>	<u>8,719,959</u>
EQUITY AND LIABILITIES			
Capital and Reserves			
Issued Share Capital	6	10,000	10,000
Retained Earnings		48,158	92,678
Total Shareholders' Equity		<u>58,158</u>	<u>102,678</u>
Non-Current Liabilities			
Limited Recourse Notes Payable	5	8,418,170	8,596,160
Current Liabilities			
Trade and other Payables	7	22,679	21,121
TOTAL EQUITY AND LIABILITIES		<u>8,499,007</u>	<u>8,719,959</u>

Approved and authorised for issue by the Directors on the 25th day of April 2014.

Director: 

(The notes on pages 11 to 25 form part of these financial statements)

INVESTKREDIT FUNDING LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31st DECEMBER 2013

	Notes	2013 EUR	2012 EUR
INCOME			
Interest Income		3,834	1,141,023
Effective income adjustment on financial liabilities at amortised cost	5	177,990	16,472,840
Gain on cancellation of financial liabilities at amortised cost	5	-	17,514,027
		<u>181,824</u>	<u>35,127,890</u>
EXPENDITURE			
Impairment of available-for-sale financial assets including recycling of fair value reserve	2	177,990	16,472,840
Loss on cancellation of available-for-sale financial asset	2	-	17,376,907
Interest expense		4,024	1,101,192
Expenses incurred on cancellation of Limited Recourse Notes Payable		-	137,120
Administration Fees		8,236	8,745
Professional Fees		6,550	6,681
Audit fees		24,019	15,508
Other Expenses		5,525	4,680
		<u>226,344</u>	<u>35,123,673</u>
Total comprehensive (loss)/income for the year		<u>(44,520)</u>	<u>4,217</u>

Continuing operations

All items dealt with in arriving at the (loss)/profit for the years ended 31st December 2013 and 31 December 2012 relate to continuing operations.

(The notes on pages 11 to 25 form part of these financial statements)

INVESTKREDIT FUNDING LIMITED

STATEMENT OF CHANGES IN EQUITY**FOR THE YEAR ENDED 31st DECEMBER 2013**

	Share Capital EUR	Retained Earnings EUR	Fair Value Reserve EUR	Total EUR
Balance at 31 December 2011	10,000	88,461	(34,665,000)	(34,566,539)
Profit for the year	-	4,217	-	4,217
Fair value reversal attributable to the cancellation of available-for-sale financial asset	-	-	17,284,662	17,284,662
Fair value reserve recycled to profit or loss due to impairment of available-for- sale financial asset	-	-	17,380,338	17,380,338
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2012	10,000	92,678	-	102,678
(Loss) for the year	-	(44,520)	-	(44,520)
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2013	10,000	48,158	-	58,158
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(The notes on pages 11 to 25 form part of these financial statements)

INVESTKREDIT FUNDING LIMITED**STATEMENT OF CASH FLOWS****FOR THE YEAR ENDED 31st DECEMBER 2013**

	Note	2013 EUR	2012 EUR
Cash flows from operating activities			
(Loss) / Profit for the year		(44,520)	4,217
Adjustments for:			
Effective income adjustment on financial liabilities at amortised cost	5	177,990	16,472,840
Impairment of available-for-sale financial assets including recycling of fair value reserve	2	(177,990)	(16,472,840)
Loss on cancellation of available-for-sale financial assets	2	-	17,376,907
Gain on cancellation of financial liabilities at amortised cost	5	-	(17,514,027)
Expenses incurred for cancellation of Limited Recourse Notes Payable		-	137,120
Interest income		-	(1,141,023)
Interest expense		-	1,101,192
Decrease/(Increase) in trade and other receivables		11,002	(47)
Increase in trade and other payables		1,558	4,242
<i>Net cash outflow from operating activities</i>		(31,960)	(31,419)
Cash flows from investing activities			
Interest received		-	1,141,342
<i>Net cash inflow from investing activities</i>		-	1,141,342
Cash flows from financing activities			
Limited Recourse Notes interest paid		-	(1,101,576)
<i>Net cash outflow from financing activities</i>		-	(1,101,576)
Net increase in cash and cash equivalents		(39,160)	8,347
Cash and cash equivalents at the beginning of the year		112,377	104,030
Cash and cash equivalents at the end of the year	3	80,417	112,377

(The notes on pages 11 to 25 form part of these financial statements)

INVESTKREDIT FUNDING LIMITED

Notes to the Financial Statements

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INVESTKREDIT FUNDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2013

1. ACCOUNTING POLICIES

These financial statements have been prepared on a going concern basis, under the historical cost convention (except for the available-for-sale financial assets which are measured at fair value) and in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee. The more significant accounting policies used are set out below.

Going Concern

The Limited Recourse Notes payable ("LRN Notes") are perpetual and therefore have no specified maturity date, being redeemable only at the option of the Company. Interest on the LRN Notes are payable on each Interest Payment Date at the rate specified in the Statement of Rights of the LRN Notes as set out in the Offering Circular dated 28TH November 2002 (the "OC") if the conditions specified therein are met. The Company's obligation to pay interest on the LRN Notes on any given Interest Payment Date will at all times be matched by the Company's right to receive interest from ÖVAG under the terms of the EKN Notes. However, in the event that one or more interest payments due on the LRN Notes are not paid, such interest is non-cumulative (i.e. the right of the holders of the LRN Notes to receive such interest lapses) and no interest is payable on such unpaid interest.

Under Clause 3 of the Support Agreement dated 22nd October 2002 between ÖVAG and the Company, ÖVAG has undertaken "to maintain the Company as a subsidiary for so long as any LRN Notes shall remain in issue." Under Clause 2 of the Support Agreement dated 22nd October 2002 between ÖVAG and the Company, ÖVAG has agreed to extend all of the obligations assumed by it pursuant to the Support Agreement to and for the benefit of the Company as if the Support Agreement were given by ÖVAG only. Consequently, ÖVAG is responsible for paying any of the Company's expenses that the Company is unable to pay itself and to maintain the Company as a going concern for as long as any LRN Notes remain in issue.

ÖVAG has currently been assigned long term credit ratings as follows: Ba1 (on review for downgrade) by Moody's, which is described by Moody's to "have speculative elements and a significant credit risk"; and, A (negative outlook) by Fitch, which is described by Fitch as a "high credit quality" credit rating that indicates "expectations of low default risk." Accordingly, the Directors currently have a reasonable expectation that ÖVAG will be able to continue to fund the Company's expenses for the foreseeable future and that the Company will continue to have adequate resources to continue in operational existence for the foreseeable future. Consequently, the Directors continue to adopt the going concern basis in preparing these financial statements.

Use of estimates and judgements

The preparation of financial statements in accordance with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the year. Actual results could differ from those estimates.

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 and in any future years affected.

The significant areas of uncertainty and critical judgements are as follows: (i) fair value estimation: further details in relation to the key assumptions made in determining fair value are disclosed in the "Fair value estimation" accounting policy and note 12; (ii) recognition and measurement of impairment: further details are disclosed in the "impairment" accounting policy; and, (iii) revision of expected cash flows on financial liabilities at amortised cost: further details are disclosed in the "effective income adjustment on financial liabilities at amortised cost" accounting policy.

NOTES TO THE FINANCIAL STATEMENTS – (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2013

1. ACCOUNTING POLICIES (CONTINUED)

Available-for-sale financial asset

The Company has classified its EKN Notes with ÖVAG as an available-for-sale financial asset under International Accounting Standard 39 'Financial Instruments: Recognition and Measurement' ("IAS39"). The available-for-sale financial asset is recognised initially and subsequently at fair value. Changes to the fair value, other than impairment losses, are recognised in other comprehensive income. Impairment losses which represent the change in estimated future cash flows on the available-for-sale financial asset as a result of a loss event are recognised within the profit or loss in the Statement of Comprehensive Income. If in a subsequent period, the fair value of the available-for-sale financial asset increases and the increase can be objectively related to an event happening after the impairment loss was recognised, and then the impairment loss is reversed, with the amount of the reversal recognised within the profit or loss in the Statement of Comprehensive Income.

Available-for-sale financial assets are derecognised when the rights to receive cash flows from the investments have expired or the Company has transferred substantially all risks and rewards of ownership. Any cumulative revaluation reserve attributable to derecognised available-for-sale financial assets are transferred from other comprehensive income to the profit or loss in the Statement of Comprehensive Income.

Fair Value Estimation

The fair value estimation methodology is explained in note 12.

Impairment

As required by IAS 39.58 a financial asset is assessed as at each reporting date to determine whether there is any objective evidence that it is impaired. Impairment is recognised if, and only if, there is objective evidence of impairment as a result of one or more 'loss events' that has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. In accordance with IAS 39.59, the Directors consider that loss events may include: failure to receive interest on the EKN Notes, reduction or write down of principal, notional or redemption amounts; notice of default or bankruptcy; other indications that ÖVAG is unlikely to meet its obligations under the EKN Notes as they fall due, such as a credit rating downgrade; or significant and prolonged decrease in the fair value of the EKN Notes.

A significant decrease in the fair value of the EKN Notes is defined as a decrease in the fair value of 20% or more and a prolonged decrease in the fair value of the EKN Notes is defined as a period of 9 months or more. Subsequent to an initial recognition of impairment, any further decrease in the fair value of the EKN Notes is considered to represent a further loss event and any increase in the fair value of the EKN Notes is considered to represent a reversal of such a loss event.

When considering whether or not objective evidence of impairment of the EKN Notes exists, the Directors will initially consider whether or not the Company is continuing to receive interest on the EKN Notes. However, whilst the failure to receive interest on the EKN Notes during the financial period or subsequently may be an indicator of impairment, it is unlikely that this alone would give rise to an impairment adjustment. Interest on the EKN Notes is contingent upon ÖVAG having sufficient distributable profits and in the absence of such the Company is not entitled to receive any interest. Thus, the Directors do not consider a failure to receive interest as a loss event when considered in isolation. However, a failure to receive interest together with one or more other loss events, such as a significant and prolonged decrease in the fair value of the EKN Notes, is considered to represent objective evidence of impairment

INVESTKREDIT FUNDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS – (CONTINUED)

FOR THE YEAR ENDED 31st DECEMBER 2013

1. ACCOUNTING POLICIES (CONTINUED)

Impairment (Continued)

Any such loss on impairment, or reversal thereof, is measured on a cumulative basis as the difference between the fair value of the EKN Notes and the carrying value in accordance with IAS 39.68. Impairment losses which represent a change in estimated future cash flows on the EKN Notes as a result of a loss event are recognised within profit and loss in the statement of comprehensive income. If in a subsequent period the fair value of the EKN Notes increases and the increase can be objectively related to an event happening after the impairment loss was recognised, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss in the statement of comprehensive income.

On 18 December 2012, ÖVAG issued a public announcement to notify the Company that ÖVAG will be unable to pay interest on the remaining outstanding EKN Notes held by the Company for period ended 31 December 2013 and that it was envisaged that no interest will be paid in 2014 and 2015. In 2012, the directors considered this to be loss event which triggered recognition of a €16,472,840 impairment loss in 2012.

On the 28 November 2013 ÖVAG issued another announcement that they expected negative results at the ÖVAG company level until at least the end of 2015 and that no interest were to be paid on the supplementary capital (which includes the EKN Notes) for 2013. The Board of Management of ÖVAG are currently preparing a new medium-term plan for 2014 and subsequent years. It indicates that, in view of restructuring measures, a negative result is expected at the ÖVAG company level until the end of the 2015 so that interest payments on supplementary capital should not be anticipated at earliest until 2016.

The directors consider the above to be a loss event in respect of the EKN Notes which resulted in a further impairment of €177,990 as at 31 December 2013.

Limited Recourse Notes Payable

Limited Recourse Notes Payable ("LRN Notes") has been designated as financial liabilities in accordance with IAS 32. These are initially recognised at their issue proceeds and subsequently recognised at amortised cost using the effective interest method. The LRN Notes are derecognised only when the obligations under the instrument are discharged, cancelled or expired.

Effective income adjustments on financial liabilities at amortised cost

In accordance with IAS 39 AG8, the Directors review at each reporting date whether or not there has been any change in the projected cash flows payable on the LRN Notes in order to determine whether or not an adjustment to the carrying amount is required under the effective interest method. If such adjustment is required at any time, the carrying value of the LRN Notes will be adjusted to the net present value ("NPV") of projected future cash flows payable, discounted at the original internal rate of return on the LRN Notes.

As referred to in the impairment accounting policy note, the expected cash flows receivable on the EKN Notes has been materially changed from those expected at the date of acquisition of the EKN Notes. A change in the projected cash flows receivable was initially recognised as at 31st December 2012 and subsequently as at each reporting date thereafter. Interest payments on the LRN Notes have been suspended since 1st January 2013.

The Company relies on receipt of coupons and principal on the EKN Notes in order to pay interest and principal on the LRN Notes.

INVESTKREDIT FUNDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS – (CONTINUED)

FOR THE YEAR ENDED 31st DECEMBER 2013

1. ACCOUNTING POLICIES (CONTINUED)

Effective income adjustments on financial liabilities at amortised cost – (continued)

The Directors have determined that, in their opinion, the best available reliable estimate of the present value as at 31st December 2013 of the projected future cash flows payable on the LRN Notes discounted at the original effective interest rate thereon was the fair value of the EKN Notes as at that date, as determined by the quoted market price of the LRN Notes adjusted for the 10 basis points difference on interest margin between the LRN Notes and the EKN Notes.

The Directors rationale for using the fair value of the EKN Notes to approximate the carrying value for LRN Notes in accordance with IAS 39 AG8 was as follows: (i) interest payments are currently suspended and the Directors cannot reliably estimate a date for resumption of such interest payments; (ii) interest on the EKN Notes is only 10 basis points higher than the interest on the LRN Notes; (iii) the LRN Notes are potentially perpetual securities and, as such, the Directors cannot reliably estimate a redemption date; and (iv) the Directors do not know what assumptions market participant might be adopting regarding projected future payments on the LRN Notes. However, assuming that such assumptions represent the best available reliable estimate of such projected future payments, then the only significant difference that should arise between an NPV calculation based upon such projected cash flows would be due to the difference between the current market discount rate applied to determine the estimated fair value of the EKN Notes and the Company's original effective interest rate of the LRN Notes. The Directors have no reliable way to estimate the possible effect of such difference. Consequently, the fair value of the EKN Notes is assumed to be the best available reliable estimate of the present value as at 31st December 2013 of the projected future cash flows payable on the LRN Notes discounted at the original effective interest rate thereon. In addition, as the interest rate on the LRN Notes is a floating market rate, there is unlikely to be a significant difference between the discount rate used by market participants and the original effective interest rate for the LRN Notes.

Interest income and interest expense

Interest income and interest expense are accounted for on an the effective interest rate basis and included in the impairment of available-for-sale financial asset and effective income adjustment on financial liabilities, respectively, due to the fact that the EKN Notes are impaired and the LRN Notes are subject to adjustment on carrying amount in accordance with IAS39 AG8 as noted above.

Foreign Currency translations

a) Currency of domicile, functional currency and presentation currency.

The currency of domicile is GBP (pounds sterling). Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"), which is the Euro. The financial statements are presented in Euro, which is the Company's functional and presentation currency.

b) Translations and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

INVESTKREDIT FUNDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS – (CONTINUED)

FOR THE YEAR ENDED 31st DECEMBER 2013

1. ACCOUNTING POLICIES (CONTINUED)

Share capital

Ordinary shares are not redeemable and are classified as equity.

Cash and cash equivalents

For the purpose of cash flows, the Company has defined cash and cash equivalents as highly liquid investments, which can be converted to cash on demand.

Segmental Reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. The Board of Directors ("the Board") perform regular reviews of the operating results of the Company as a whole and makes decisions using financial information at the entity level. Accordingly, the Board believes that the Company has only one operating segment.

The Board is responsible for ensuring that the Company carries out business activities in line with the transaction documents. They may delegate some or all of the day to day management of the Company including the decisions to purchase and sell financial instruments to other parties both internal and external to the Company. The decisions of such parties are reviewed on a regular basis to ensure compliance with the policies and legal responsibilities of the Board. Therefore, the Board retains full responsibility as to the major allocation decisions of the Company.

Dividend Distributions

Dividend distributions to the Company's shareholders are recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

New Accounting Standards, amendments to existing Accounting Standards and /or interpretations of existing Accounting Standards (separately or together, "New Accounting Requirements") adopted during the current year

The Directors have assessed the impact, or potential impact, of all New Accounting Requirements. In the opinion of the Directors, except for the amendments to IAS 1 and the new requirements of IFRS 13 referred to below, there are no mandatory New Accounting Requirements applicable in the current year that had any material effect on the reported performance, financial position, or disclosures of the Company. Consequently, no other mandatory New Accounting Requirements are listed. The Company has not early adopted any New Accounting Requirements that are not mandatory.

IAS 1, "Presentation of Financial Statements" (amendments) – effective for accounting periods commencing on or after 1st July 2012

The main change resulting from these amendments that is relevant to the Company is a requirement for entities to Group items presented in other comprehensive income ("OCI") on the basis of whether they may potentially be reclassified to profit or loss subsequently (reclassification adjustments). This amendment did not have any significant impact to the financial statements

IFRS 13 "Fair Value Measurement" – effective for accounting periods commencing on or after 1st January 2013

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting, but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

The principal changes affecting the Company's disclosures are included in notes 1 and 12.

INVESTKREDIT FUNDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS – (CONTINUED)

FOR THE YEAR ENDED 31st DECEMBER 2013

1. ACCOUNTING POLICIES (CONTINUED)

Non-mandatory New Accounting Requirements not yet adopted

The following applicable new Accounting Standards have been issued. However, these New Accounting Requirements are not yet mandatory and have not yet been adopted by the Company. All other non-mandatory New Accounting Requirements are either not yet permitted to be adopted, or would have no material effect on the reported performance, financial position, or disclosures of the Company and consequently have neither been adopted, nor listed.

IFRS 9, “Financial Instruments” (Replacement of IAS 39 - “Financial Instruments: Recognition and Measurement”) – tentative effective date of 1 January 2018

IFRS 9 is an incomplete standard that currently addresses the recognition, classification and measurement of financial assets and financial liabilities and may be adopted to replace the relevant parts of IAS 39. Those parts of IAS 39 that relate to impairment have not yet been fully addressed by IFRS 9. It is the IASB’s stated intention that IFRS 9 will ultimately replace IAS 39 in its entirety.

IFRS 9 requires financial assets to be classified into two measurement categories: (i) those measured at fair value; and (ii) those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity’s own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

There is currently no mandatory effective date for the application of IFRS 9. The IASB has stated that a mandatory effective date will be determined once IFRS 9 is nearer to completion, but early adoption is permitted at any time. The Directors have not yet assessed the full potential impact of IFRS 9, but intend to do so once the standard is complete. The Company intends to adopt IFRS 9 no later than the mandatory effective date when such date may have been determined.

2. AVAILABLE-FOR-SALE FINANCIAL ASSET

	2013 EUR	2012 EUR
Balance as at 1 January	8,596,160	15,335,000
Amount cancelled during the year	-	(7,554,093)
Realised loss on cancellation	-	(92,245)
Impairment (charge)/ reversal during the year	(177,990)	907,498
Balance as at 31 December	8,418,170	8,596,160

INVESTKREDIT FUNDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS – (CONTINUED)

FOR THE YEAR ENDED 31st DECEMBER 2013

The proceeds from the issue of the LRN Notes were originally deposited with Investkredit International Bank Plc, Sliema, Malta ("the Deposit Bank"). The Deposit Bank used the Deposit Amount to purchase EKN Notes issued by ÖVAG, in Vienna, Austria.

Interest is receivable on the EKN Notes at a rate of 3 month Euribor plus 1.75% and is due quarterly in arrears on each 31 March, 30 June, 30 September and 31 December. Interest income on the EKN Notes is non-cumulative.

The EKN Notes have no scheduled maturity date.

On 5th October 2012, an agreement was reached between ÖVAG, Investkredit International Bank plc and the Company to cancel a nominal amount of €24,931,000 of Certificate of Deposit against the same nominal amount of the LRN Notes issued by the Company that were purchased by ÖVAG from third party holders. The fair value of the EKN Notes cancelled was €7,554,093 which resulted in a realised loss on cancellation of EKN Notes of €17,376,907 being a current year loss of €92,245 and cumulative fair value losses of €17,284,662 previously recognised in other comprehensive income.

On 18 December 2012, ÖVAG issued a public announcement to notify the Company that ÖVAG would be unable to pay interest on the remaining outstanding EKN Notes held by the Company. The directors considered this as a loss event which triggered the recognition of an impairment loss of €17,380,338 on 18 December 2012 as a recycle from amounts previously recognised in other comprehensive income. As at 31 December 2012, an impairment reversal of €907,498 was recorded due to improving estimated cash flows resulting in a net impairment charge in the statement of comprehensive income for 2012 of €16,472,840.

On 25th February 2013, Investkredit International Bank plc transferred the ownership of the outstanding EKN Notes issued by ÖVAG to the Company and cancelled the Certificate of Deposit between the Company and Investkredit International Bank plc. As at that date and as at 31 December 2013, the nominal of the EKN Notes held by the Company was €25,069,000 (2012: €25,069,000).

On the 28 November 2013 ÖVAG issued another announcement that they expected negative results at the ÖVAG company level until at least the end of 2015 and that no interest were to be paid on the supplementary capital (which includes the EKN Notes) for 2013. The Board of Management of ÖVAG are currently preparing a new medium-term plan for 2014 and subsequent years. It indicates that, in view of restructuring measures, a negative result is expected at the ÖVAG company level until the end of the 2015 so that interest payments on supplementary capital should not be anticipated at earliest until 2016.

The directors consider the above to be a loss event in respect of the EKN Notes which resulted in a further impairment of €177,990 as at 31 December 2013.

3. CASH AND CASH EQUIVALENTS

	2013 EUR	2012 EUR
Current Account	<u>80,417</u>	<u>112,377</u>
	<u>80,417</u>	<u>112,377</u>

INVESTKREDIT FUNDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31st DECEMBER 2013

4. TRADE AND OTHER RECEIVABLES

	2013 EUR	2011 EUR
Interest Receivable	-	4,024
Prepayments	420	7,398
	<u>420</u>	<u>11,422</u>

5. LIMITED RECOURSE NOTES PAYABLE

	2012 EUR	2012 EUR
Balance as at 1 January	8,596,160	50,000,000
Notes cancelled during the year	-	(7,416,973)
Gain on cancellation of financial liabilities at amortised cost	-	(17,514,027)
Effective income adjustment on financial liabilities at amortised cost	(177,990)	(16,472,840)
	<u>8,418,170</u>	<u>8,596,160</u>

The Company (the "Issuer") has issued 50,000 perpetual subordinated non-cumulative LRN Notes at an issue price of €1,000 per Note. The LRN Notes have no fixed maturity date and are redeemable, at par value, only at the option of the Issuer, on any interest payment date falling on or after 31st December 2008. The LRN Notes are dually listed on the Vienna Stock Exchange and the Frankfurt Stock Exchange.

No redemption of LRN Notes may take place if the Issuer has insufficient distributable funds to pay the Redemption Price of the LRN Notes and to pay in full the corresponding interest, accrued and unpaid. As at 31 December 2013, the nominal amount of LRN Notes outstanding was €25,069,000 (2012: €25,069,000).

Interest will accrue on the LRN Notes at a rate per annum equal to 3 month Euribor plus 1.65% and is payable quarterly in arrears. Interest payments are only made to the extent that (a) the Issuer has sufficient distributable funds and (b) ÖVAG ("the Bank") has an amount of distributable profits for its preceding fiscal year at least equal to the aggregate amount of such interest payments on the LRN Notes and dividends or other distributions or payments on Parity Securities, if any, *pro rata* on the basis of distributable profits for such preceding fiscal year. The holders of the LRN Notes will have no right to receive payment in respect of any missed or reduced interest payments.

Despite sufficient distributable funds of the Issuer and sufficient distributable profits of the Bank, the Issuer shall not be required to make interest payments on the LRN Notes on any Payment Date to the extent that, pursuant to applicable

INVESTKREDIT FUNDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS – (CONTINUED)

FOR THE YEAR ENDED 31st DECEMBER 2013

5. LIMITED RECOURSE NOTES PAYABLE (Continued)

Austrian banking regulations affecting banks which fail to meet their capital ratios on a consolidation basis, the Bank would be limited in making payments on the LRN Notes or Parity Securities, or if on such date, there is in effect an order of the Regulatory Authority prohibiting the Bank from making any distribution of profits. Interest on the LRN Notes is non-cumulative.

On 5th October 2012 an agreement was reached between ÖVAG, Investkredit International Bank plc and the Company to cancel a nominal amount of €24,931,000 of the Certificate of Deposit (see note 2) against the same nominal amount of the LRN Notes issued by the Company that were purchased by ÖVAG from third party holders. The fair value of the LRN Notes cancelled was €7,416,973. The realised gain on cancellation of LRN Notes was €17,514,027.

On 18 December 2012, ÖVAG issued a public announcement stating that ÖVAG would be unable to pay interest on the EKN Notes from 31 December 2012. The directors considered this as a loss event which triggered recognition of an €17,380,338 impairment loss. Given the limited recourse nature of the LRN Notes, the carrying value of the LRN Notes has been adjusted for the same amount to reflect the change in the cash flow due to the holders of the LRN Notes. For 2012, the total effective income adjustment on financial liabilities at amortised cost within the Statement of Comprehensive Income of €16,472,840 consists of an initial adjustment of €17,380,338 on 18 December 2012 and a reversal of €907,498 at 31 December 2012.

The estimated future cash flows on the LRN Notes were subject to a further assessment on 31 December 2013 resulting in an effective income adjustment of €177,990 recorded in the Statement of Comprehensive Income for the year.

ÖVAG has entered into a Support Undertaking whereby the Bank undertakes to ensure that the Issuer will at all times be in a position to meet its net obligations. The Support Undertaking has been amended in 2012 to enable the partial cancellation of the Notes.

6. ISSUED SHARE CAPITAL

	2013 EUR	2012 EUR
AUTHORISED, ISSUED AND FULLY PAID 10.000 Ordinary Shares of EUR1 each	<u>10,000</u>	<u>10,000</u>

Capital Management

The Company is not exposed to externally imposed capital requirements. The Company's capital is disclosed above. The Company manages its ordinary share capital in order to ensure that there is sufficient capital, in the opinion of the Directors, to support the transactions and level of business undertaken by the Company.

7. TRADE AND OTHER PAYABLES

	2013 EUR	2012 EUR
Interest Payable	-	3,834
Audit fee	15,593	15,439
Administration Fees	7,086	818
Other Accruals	-	1,030
	<u>22,679</u>	<u>21,121</u>

INVESTKREDIT FUNDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS – (CONTINUED)

FOR THE YEAR ENDED 31st DECEMBER 2013

8. TAXATION

Profits arising in the Company are subject to Jersey Income Tax at a rate of 0%.

9. OPERATING SEGMENT

Geographical information – revenue and non-current assets

The Company's interest income of €nil (2012: €1,141,023) represent the full amount of reportable segment revenue. The geographical source of income is Austria (2012: Malta) as disclosed in Note 2.

The Company does not have any non-current assets other the available-for-sale financial asset.

Major investment counterparty

All of the Company's revenues are derived from ÖVAG (2012: Investkredit International Bank plc) (refer to Note 2).

10. HOLDING COMPANY

On 15th March 2013, Investkredit International Bank plc transferred the share capital in the Company to its parent company, ÖVAG. From that date, the Company is wholly owned by ÖVAG.

ÖVAG is the ultimate holding company as at and for the year ended 31 December 2013.

11. RELATED PARTIES

N. Curmi is a senior employee of the former holding company, Investkredit International Bank plc. Mr. Curmi resigned on the 28th May 2013.

H. Skok is a director of Investkredit International Bank plc and is also Managing Director of Volksbank Malta Ltd. Mr. Skok resigned on the 28th May 2013.

F. Chesnay is a former employee of a subsidiary of State Street Corporation ("SCC"), affiliates of which provided administrative services to the Company until 1st June 2013. Mr. Chesnay resigned on the 1st June 2013.

K. Kinsky was appointed director with effect from 28th May 2013. He is the Head of Institutional Investor Relations with ÖVAG.

A. Hikade was appointed director with effect from 28th May 2013. He is a member of the Corporate Planning and Finance Department of ÖVAG.

C. Ruark was appointed director with effect from 1st June 2013. He is an employee of Sanne Group which provides administrative services to the Company (with effect from 1st June 2013).

See notes 2 and 5 for material related party transactions.

INVESTKREDIT FUNDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS – (CONTINUED)

FOR THE YEAR ENDED 31st DECEMBER 2013

12. FINANCIAL INSTRUMENTS

As stated in the Directors' Report the principal activity of the Company is limited to the issue of LRN Notes, which have been classified by the company as financial liabilities measured at amortised cost under IAS39. The proceeds from the issue are invested into securities issued by group entities. Therefore, the role of financial assets and financial liabilities is central to the activities of the Company.

The strategies used by the Company in achieving its objectives regarding the use of its financial asset and debt instrument were set when the Company entered into the transactions. The Company has attempted to match the properties of its debt instrument to its asset to avoid significant elements of risk generated by mis-matches of investment performance against its obligations, together with any maturity or interest rate risk.

All cash and cash equivalents, short term debtors and creditors have been excluded from the following disclosures.

Interest rate risk

The Company finances its operations through the issue of LRN Notes. Interest is payable on the LRN Notes at 3 month Euribor plus 1.65% whilst interest is receivable on the EKN Notes at 3 month Euribor plus 1.75%. Therefore, the amount by which the Company's interest income will exceed its interest expense is fixed at 0.10%. Also, interest will not be payable unless there are sufficient distributable funds to do so. Accordingly, the directors believe that there is no material net interest rate risk to the Company and all interest rate risk is borne by the LRN Note holders.

The interest rate profiles of the Company's financial asset and liability are as follows:

	Effective Interest rate	Interest charging basis	2013 Carrying amount EUR	Effective Interest rate	2012 Carrying amount EUR
Financial Asset					
EKN Notes	Euribor + 1.75%	Floating rate	<u>8,418,370</u>	Euribor + 1.75%	<u>8,596,160</u>
Financial Liability					
LRN Notes	Euribor + 1.65%	Floating rate	<u>8,418,370</u>	Euribor + 1.65%	<u>8,596,160</u>

Interest rate risk – sensitivity analysis

IFRS 7 requires disclosures of "a sensitivity analysis for each type of market risk to which the entity is exposed at the reporting date, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date". From the Company's perspective any change in the interest rate attached to the LRN Notes would be matched by an equal and opposite change in the interest rate attached to the EKN Notes. Consequently a change in interest rates would have no net effect on profit or loss and/or equity.

Currency rate risk

All of the Company's major financial assets, financial liabilities and debt instruments are denominated in Euro. Consequently, the directors believe that there is no material net currency risk to the Company.

Concentration risk and Counterparty risk

Concentration risk describes the risk that the Company may be exposed at any given time to any one industry, region or country. The Company faces counterparty concentration risk from its Support Agreement with ÖVAG.

INVESTKREDIT FUNDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS – (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2013

12. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk and Counterparty risk – (continued)

If the Company were to have insufficient funds to meet the Company's obligations on maturity of the LRN Notes, the Company would rely upon the performance of ÖVAG, under the Support Undertaking Agreement, to meet the Company's obligations.

ÖVAG is currently undergoing a transformation process, systematically implementing wind-down measures required by the European Commission. Although ÖVAG's most recent financial results indicate that it currently remains in a loss-making position, its capital ratios have been strengthened over the course of the financial year. ÖVAG reported that its tier 1 ratio in relation to total risk as at 30th September 2013 was 13.0% (increased from 10.9% at the end of 2012) and its equity ratio in relation to total risk was 17.5% (increased from 15.7% at the end of 2012). ÖVAG has long term credit rating of Baa3 from Moody's with a stable outlook and a rating of A from Fitch with a stable outlook.

In the Directors' opinion, the amounts payable by the Company under the LRN Notes are linked, in commercial substance, to the amounts receivable by the Company from the EKN Notes and/or the Support Agreement. Therefore, in the Directors' opinion, despite the Company's exposure to counterparty risk with respect to ÖVAG, there is no net material counterparty risk to the Company and all counterparty risk is ultimately borne by the LRN Note holders.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Coupon payments on the LRN Notes are only payable by the Company if ÖVAG generates a profit in accordance with the Austrian banking law. In the same way, distribution payments under the LRN Notes are non-cumulative, and are limited to amounts receivable from ÖVAG under the EKN Notes.

Due to the nature of the Company's operations, the Directors consider the net liquidity risk faced by the Company as minimal. The most significant cash outflow consists of the payment of interest on the LRN Notes. The timing of its cash outflows falls due on the same dates as the cash inflows to the EKN Notes. The Directors consider its available cash resources as sufficient to meet its net obligation as they fall due and any liquidity risk is ultimately borne by the LRN Note holders.

The contractual undiscounted maturity profile of the company's major financial asset and liability is as follows:

	2013 Available-for-sale financial asset	2012 Available-for-sale financial asset
No contractual maturity (Note 2)	<u>EUR 25,069,000</u>	<u>EUR 25,069,000</u>
	2013 Financial Liability	2012 Financial Liability
No contractual maturity (Note 5)	<u>EUR 25,069,000</u>	<u>EUR 25,069,000</u>

INVESTKREDIT FUNDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS – (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2013

12. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value estimation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants at the measurement date. The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received).

The fair value of the Company's financial instruments compared to the carrying value in the Statement of Financial Position are summarised below.

	2013 Carrying value	2013 Fair value	2012 Carrying value	2012 Fair value
	EUR	EUR	EUR	EUR
Available-for-sale financial asset (EKN Notes)	<u>8,418,170</u>	<u>8,418,170</u>	<u>8,596,160</u>	<u>8,596,160</u>
Limited Recourse Notes Payable	<u>8,418,170</u>	<u>8,398,115</u>	<u>8,596,160</u>	<u>8,480,843</u>

The fair value of the LRN Notes is obtained directly from an average between bid/ask prices of three closing quoted market prices reported by Bloomberg on or close to the reporting date. Such prices may be quoted directly by individual brokers or may be quoted prices reported via the Frankfurt Stock Exchange.

The EKN Notes are neither quoted nor traded in an active market, being held exclusively by the Company. Consequently, no quoted market price exists for the EKN Notes. The terms of the EKN Notes are identical in all material respects to those of the LRN Notes, except for the fact that the LRN Notes bear interest at the 3 months Euribor plus a margin of 1.65%, whilst the EKN Notes bear interest at the 3 months Euribor plus a margin of 1.75%.

Accordingly, in the Directors' opinion the fair value of the EKN Notes is estimated to be approximately equal and opposite to the fair value of the LRN Notes at all times, as adjusted for the estimated NPV of the margin differential, assuming that such margin differential is receivable in perpetuity, calculated using a discounted cash flow ("DCF") valuation model. The principal assumptions adopted in the DCF valuation model were as follows: (i) Coupon: an assumption was made regarding the date on which interest payments were expected to resume, it being assumed that coupons might potentially resume in 2016; (ii) Maturity: the EKN Notes and LRN Notes are both potentially perpetual securities and it was therefore assumed that the coupon margin differential would be received on the EKN Notes until 2049, as an approximation of the NPV in perpetuity; and. (iii) Discount rate: all coupon margin cash flows were discounted by market data at the balance sheet date with a risk premium of 1,322 basis points being applied as at 31st December 2013 (2012: 830 basis points). The fair value derived from this model as at 31 December 2013 was 33.59% (2012: 34.29%) of the notional outstanding.

INVESTKREDIT FUNDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS – (CONTINUED)

FOR THE YEAR ENDED 31st DECEMBER 2013

12. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy

IFRS 13 "Fair Value Measurements" ("IFRS 13") establishes a fair value hierarchy that prioritises the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under IFRS 13 are as follows:

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities at the valuation date;

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices), including inputs from markets that are not considered to be active;

Level 3 – Inputs that are not based upon observable market data.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "active" and/or "observable" requires significant judgment by the Company. The Company considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, provided by multiple, independent sources that are actively involved in the relevant market. The categorisation of a financial instrument within the hierarchy is based upon the pricing transparency of the financial instrument and does not necessarily correspond to the Company's perceived risk inherent in such financial instrument.

The LRN Notes are currently classified within Level 2 of the fair value hierarchy on the basis that the market for the LRN Notes is currently observable but not active as defined by IFRS 13. Although a number of brokers provide quoted prices on a continuous basis, the volume of trading appears to be relatively low and such prices have larger spreads between the bid and offer prices than would be expected in an active market.

If the market for the LRN should become active during any future reporting period and remain active as at such reporting period end, then the LRN Notes would be reclassified within Level 1 of the fair value hierarchy. Similarly, should quoted prices no longer be available during any future reporting period and remain unavailable as at such reporting period end, then the LRN Notes would be reclassified within Level 3 of the fair value hierarchy.

The EKN Notes are currently classified within Level 2 of the fair value hierarchy on the basis that the adjustment to the fair value for the NPV of the margin differential (approximately 0.10%) is not significant. Consequently, the fair value of the EKN Notes is considered to have been determined directly from the fair value of the LRN Notes, which is a Level 2 fair value.

The EKN Notes were classified within Level 3 of the fair value hierarchy as at 31st December 2012 on the basis that the adjustment from the fair value of the LRN Notes was considered to be significant. However, in 2013 in the Directors' opinion, the adjustment is not considered to be significant as it represents only 0.24% of the fair value of the EKN Notes. Consequently, the EKN Notes have been reclassified from Level 3 to Level 2.

The Directors apply transfers between levels in the fair value hierarchy as at the end of each reporting period. No separate reconciliation has been prepared for the EKN Notes which have been transferred from level 3 to level 2 since all the gains and losses relate to the period when the fair value of the EKN Notes was measured using level 3 inputs.

INVESTKREDIT FUNDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS – (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2013

12. FINANCIAL INSTRUMENTS (CONTINUED)

Fair values - sensitivity analysis

As at 31st December 2013, if the market interest rate increased by 50 basis points, with all other variables held constant, this would have decreased the fair value of the EKN Notes by €398,597 (2012: 556,532). A decrease of 50 basis points, with all other variables held constant would have increased the value of the EKN Notes by €436,201(2012: 626,725). Since the EKN Notes and the LRN Notes are denominated in the same currency and with the same interest base (except for a small margin), the directors believe that the changes to the fair value of the EKN Notes due to change in market interest rate would not be materially different from the changes to the fair value of the LRN Notes.

13. KEY MANAGEMENT PERSONNEL

The key management personnel have been identified as being the Directors of the Company. The emoluments of the key management personnel are paid by the ultimate controlling party and other related parties who make no recharge to the Company.

14. SUBSEQUENT EVENTS

There were no events after the year end that require adjustment or disclosure in these financial statements.

INVESTKREDIT FUNDING LIMITED

Statement of Persons Responsible within the Company

We confirm to the best of our knowledge that the attached financial statements for the year ended 31 December 2013 give a true and fair view of the assets, liabilities, financial position and profit or loss of the company as required by the applicable accounting standards and that the Directors' Report gives a true and fair view of developments and performance of the business and the position of the company, together with a description of the principal risks and uncertainties the company faces.



Chris Ruark
Director



Karl Kinsky
Director



Alfred Hikade
Director


Statement of Persons Responsible within the Company

We confirm to the best of our knowledge that the attached financial statements for the year ended 31 December 2013 give a true and fair view of the assets, liabilities, financial position and profit or loss of the company as required by the applicable accounting standards and that the Directors' Report gives a true and fair view of developments and performance of the business and the position of the company, together with a description of the principal risks and uncertainties the company faces.

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