Company Registration No. 83373

ERSTE FINANCE (JERSEY) (4) LIMITED

Annual Report
and
Audited Financial Statements

for the year ended 31 December 2013

CONTENTS

GENERAL INFORMATION

Registration

Erste Finance (Jersey) (4) Limited (the "Company") is registered in Jersey, Channel Islands as a public limited liability Company under the Companies (Jersey) Law, 1991. The Company's registration number is 83373.

Directors

Gareth Essex - Cater	
Helen Grant	
Francois Chesnay	(resigned on 1 June 2013)
Martin Sadleder	
Marouska Agius	
Chris Ruark	(appointed on 1 June 2013)
Gerald Fleischmann	

Former Company Secretary (up to 1 June 2013)

State Street Secretaries (Jersey) Limited

New Company Secretary (as from 1 June 2013)

Sanne Secretaries Limited

Former Registered Office (up to 1 June 2013)

22 Grenville Street
St Helier
Jersey
JE4 8PX
Channel Islands

New Registered Office (as from 1 June 2013)

13 Castle Street
St Helier
Jersey
JE4 5UT
Channel Islands

Independent Auditors

Ernst & Young LLP
Liberation House
Castle Street
St Helier,
Jersey
JE1 1EY
Channel Islands

DIRECTORS' REPORT

The Directors present their report together with the audited Financial Statements for the year ended 31 December 2013.

Principal activity

The Company is engaged in raising finance for its ultimate parent Company as disclosed in note 12 to these Financial Statements.

Classification of the Subordinated Perpetual CMS Floating Rate Notes (the "Notes") issued by Erste Group Bank AG (formerly Erste Bank der Oesterreichischen Sparkassen AG and hereafter referred to as "Erste Bank").

As further disclosed in note 2.3 to the financial statements, the Company had previously classified its investment in the Notes as loans and receivables under IAS 39. However, the Notes have now been re-classified as available-for-sale financial assets in accordance with IAS 39. The comparative amounts for 2012 and 2011 have been restated accordingly.

Results and dividends

The Statement of Comprehensive Income is set out on page 6 and the movements in retained earnings are disclosed in the Statement of Changes in Equity on page 8.

No dividend payments have been proposed or paid to the holders of the ordinary shares during the current or prior year.

Directors

The names of the Directors of the Company who held office during the year ended 31 December 2013 and to date are set out on page 2.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Financial Statements in accordance with applicable law and regulations.

Jersey Company law requires the Directors to prepare Financial Statements for each financial period in accordance with any generally accepted accounting principles. The Financial Statements of the Company are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these Financial Statements, the Directors should:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and appropriate;
- specify which generally accepted accounting principles have been adopted in their preparation; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping accounting records which are sufficient to show and explain its transactions and are such as to disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements prepared by the Company comply with the requirements of 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 and other irregularities.

DIRECTORS' REPORT - continued

Statement of persons responsible within the issuer

With regard to Regulation 2004/109/EC of the European Union (the "EU Transparency Directive"), the Directors confirm to the best of their knowledge that the 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.

The Directors' Report gives a fair review of the development of the Company's business, financial position and the important events that have occurred during the financial year and their impact on the Financial Statements. The principal risks and uncertainties faced by the Company are disclosed in Note 13 of these Financial Statements.

Going concern

As at the date of the Financial Statements, it is the Directors' understanding that it is not the intention of Erste Group Bank AG to redeem the floating rate notes held by the Company or liquidate the Company. According to the projected cash flows the Directors expect sufficient cash flows to fulfil all commitments of the Company for the foreseeable future.

Events occurring after the reporting date

The direct owner of the Company, which at present is Erste Bank (Malta) Limited, is expected to change to Jersey Holding (Malta) Limited during the first quarter of 2014. The ultimate parent of the Company remains unchanged.

Auditors

Ernst & Young LLP have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors by:

Director: Gareth Essex-Cater
Date: 20/03/14

Gareth Essex-Cater
Director

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ERSTE FINANCE (JERSEY) (4) LIMITED

Building a better
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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ERSTE FINANCE (JERSEY) (4) LIMITED

We have audited the financial statements of Erste Finance (Jersey) (4) Limited (the "Company") for the year ended 31 December 2013 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and the related notes 1 to 15. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union.

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 Directors' Responsibilities Statement 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. Those standards require us to comply with the International Federation of Accountants Handbook of the Code of Ethics for Professional Accountants.

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

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; 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:

- proper accounting records have not been kept, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Christopher James Matthews, FCA
for and on behalf of Ernst & Young LLP
Jersey, Channel Islands
Date: 25 March 2014

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2013 EUR	* Restated 2012 EUR
Finance revenue	3	**2,555,878**	4,338,971
Finance costs	4	**(2,508,358)**	(4,392,969)
Net finance revenue/(cost)		**47,520**	(53,998)
Administrative expenses	5	**(33,073)**	(21,873)
Profit/(loss) for the financial year		**14,447**	(75,871)
Other comprehensive income			
Items that may be reclassified subsequently from other comprehensive income to profit or loss			
Gain on revaluation of available-for-sale financial assets		**22,423,372**	16,048,200
Items that may not be reclassified subsequently from other comprehensive income to profit or loss			
Gain on redemption of available-for-sale financial assets		**-**	92,988,825
Total other comprehensive income		**22,423,372**	109,037,025
Total comprehensive income for the year net of tax, attributable to equity holders of the parent		**22,437,819**	108,961,154

All results originate from continuing operations.

* *Certain figures presented above do not correspond to those originally presented in the 2012 financial statements. Such figures have been adjusted as detailed in note 2.3.*

The accounting policies and explanatory notes on pages 10 to 24 form an integral part of the Financial Statements.

STATEMENT OF FINANCIAL POSITION
as at 31 December 2013

	Notes	2013 EUR	* Restated 2012 EUR	* Restated 1 January 2012 EUR
ASSETS				
Current assets				
Available-for-sale financial assets	6	**85,399,501**	62,976,129	101,398,104
Receivables	7	**55,271**	44,291	75,488
Cash at bank	11	**446,171**	435,932	507,363
		85,900,943	63,456,352	101,980,955
TOTAL ASSETS		**85,900,943**	63,456,352	101,980,955
EQUITY AND LIABILITIES				
Capital and reserves				
Issued capital	8	**1**	1	3
Share premium	8	**234**	234	22,000,232
Retained earnings	8	**440,869**	426,422	502,293
Revaluation reserve		**(41,641,499)**	(64,064,871)	(173,101,896)
Total equity		**(41,200,395)**	(63,638,214)	(150,599,368)
Current liabilities				
Preference Shares	9	**127,041,000**	127,041,000	252,500,000
Payables	10	**60,338**	53,566	80,323
		127,101,338	127,094,566	252,580,323
TOTAL EQUITY AND LIABILITIES		**85,900,943**	63,456,352	101,980,955

* *Certain figures presented above do not correspond to those originally presented in the 2012 financial statements. Such figures have been adjusted as detailed in note 2.3.*

The accounting policies and explanatory notes on pages 10 to 24 form an integral part of the Financial Statements.

The Financial Statements on pages 6 to 24 were approved and authorised for issue by the Board of Directors on ________________ and were signed on its behalf by:

Director

STATEMENT OF CHANGES IN EQUITY

	Issued share capital EUR	Share premium EUR	Revaluation reserve EUR	Retained earnings EUR	Total EUR
Balance as at 1 January 2013	1	234	(64,064,871)	426,422	(63,638,214)
Profit for the year	-	-	-	14,447	14,447
Other comprehensive income	-	-	22,423,372	-	22,423,372
Total comprehensive income	-	-	22,423,372	14,447	22,437,819
Balance as at 31 December 2013	**1**	**234**	**(41,641,499)**	**440,869**	**(41,200,395)**
At 1 January 2012 as previously reported	3	22,000,232	-	502,293	22,502,528
Change in accounting policy (note 2.2)	-	-	(173,101,896)	-	(173,101,896)
Balance as at 1 January 2012 as restated*	3	22,000,232	(173,101,896)	502,293	(150,599,368)
Loss for the year	-	-	-	(75,871)	(75,871)
Other comprehensive income	-	-	109,037,025	-	109,037,025
Total comprehensive income	-	-	109,037,025	(75,871)	86,961,154
Redemption of Shares	(2)	(21,999,998)	-	-	22,000,000
Balance as at 31 December 2012	**1**	**234**	**(64,064,871)**	**426,422**	**(63,638,214)**

* *Certain figures presented above do not correspond to those originally presented in the 2012 financial statements. Such figures have been adjusted as detailed in note 2.3.*

The accounting policies and explanatory notes on pages 10 to 24 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS

	Note	2013 EUR	* Restated 2012 EUR
Cash flows from/(used in) operating activities			
Interest received on financial assets		**2,544,899**	4,370,167
Dividends paid on Preference Shares		**(2,501,120)**	(4,419,639)
Cash paid for administration expenses		**(33,540)**	(21,959)
Net cash flows from/(used in) operating activities		**10,239**	(71,431)
Cash flows from investing activities			
Net proceeds from redemption of available-for-sale financial assets		-	147,459,000
Cash flows used in financing activities			
Repurchase of Preference Shares		-	(125,459,000)
Repurchase of Ordinary Shares		-	(22,000,000)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**10,239**	(71,431)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**435,932**	507,363
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	11	**446,171**	435,932

* *Certain figures presented above do not correspond to those originally presented in the 2012 financial statements. Such figures have been adjusted as detailed in note 2.3.*

The accounting policies and explanatory notes on pages 10 to 24 form an integral part of the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Erste Finance (Jersey) (4) Limited (the "Company") was incorporated in Jersey, Channel Islands on 31 October 2006, as a public Company with limited liability, under the Companies (Jersey) Law 1991. The principal activity of the Company is raising finance for its ultimate parent Company Erste Group Bank AG (formerly Erste Bank der Oesterreichischen Sparkassen AG and hereafter referred to as "Erste Bank"), by issuing Series H Floating Rate Non-cumulative Non-voting Preference Shares (the "Preference Shares"). The proceeds from the Preference Shares were used to purchase Subordinated Perpetual CMS Floating Rate Notes (the "Notes") issued by Erste Bank.

2.1 BASIS OF PREPARATION

Basis of preparation

These financial statements are prepared on the historical cost basis, except for the revaluation of available-for-sale financial assets, and are presented in Euros. The principal accounting policies adopted in the preparation of these financial statements are set out below. These accounting policies have been consistently applied to all the periods presented unless otherwise stated.

Going concern

As at the date of the Financial Statements, it is the Directors' understanding that it is not the intention of Erste Bank to redeem the Notes held by the Company or liquidate the Company. According to the projected cash flows the Directors expect sufficient cash flows to fulfil all commitments of the Company for the foreseeable future. Consequently, the Directors continue to adopt the going concern basis in preparing these financial statements.

Statement of compliance

These Financial Statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU and applicable interpretations issued by the International Financial Reporting Interpretations Committee and comply with the Companies (Jersey) Law, 1991.

Use of estimates and judgements

The preparation of financial statements in accordance with IFRS 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; (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 "revision of expected cash flows on financial liabilities at amortised cost" accounting policy.

NOTES TO THE FINANCIAL STATEMENTS - continued

2.2 CHANGES IN ACCOUNTING POLICIES

Standards, interpretations and amendments to published standards as endorsed by the EU effective in the current year

- 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. IFRS 13 defines fair value as an exit price.

  The principal change affecting the Company's disclosures is the requirement for the Company to disclose the level of the fair value hierarchy within which the fair value measurements of the Notes and the Preference Shares are categorised (Level 1, 2 or 3). The fair value hierarchy disclosure is provided in note 13.

- 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). The amendments do not address which items are presented in OCI.

All other mandatory new and amended standards would have no material effect on the reported performance, financial position, or disclosures of the Company and consequently have not been listed.

Standards, interpretations and amendments to published standards that have not yet been endorsed by the EU

- IFRS 9, "Financial Instruments" (Replacement of IAS 39 — "Financial Instruments: Recognition and Measurement") – currently no mandatory effective date.

  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 addressed by IFRS 9. It is the IASB's stated intention that IFRS 9 will ultimately replace IAS 39 in its entirety.

  There is currently no mandatory effective date under IFRS for application of IFRS 9 and it has not yet been endorsed for use in the EU. 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 later of the mandatory effective date per the IASB and the mandatory effective date per the EU when and if such dates may have been determined.

All other non-mandatory new and amended standards 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.

NOTES TO THE FINANCIAL STATEMENTS - continued

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Available-for-sale financial assets ("AFS financial assets")

The Company has classified its investment in the Notes as an AFS debt financial asset under International Accounting Standard 39 'Financial Instruments: Recognition and Measurement' ("IAS 39"). AFS financial assets are measured initially at fair value plus transaction costs that are directly attributable to the acquisition of the asset. Subsequent to initial recognition they are measured at fair value and changes therein, other than impairment losses and foreign exchange gains and losses on AFS monetary items, are recognised directly in OCI. When an AFS financial asset is derecognised, the cumulative gain or loss in equity is transferred to the income statement.

AFS financial assets are derecognised when the rights to receive cash flows have expired or the Company has transferred substantially all risks and rewards of ownership. Consequently, the Notes are derecognised upon redemption by Erste Bank. Any cumulative revaluation reserve attributable to derecognised available for sale financial assets are transferred from OCI to profit or loss in the statement of comprehensive income.

The Notes are potentially perpetual securities, as they are not redeemable at the option of the Company. However, the Notes may be redeemed on each interest payment date at the option of Erste Bank upon giving the Company not less than 30 nor more than 60 business days notice. Consequently, the Notes are classified as current assets in the statement of financial position.

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. An 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 Notes; reduction or write down of principal, notional or redemption amounts; notice of default or bankruptcy; other indications that Erste Bank may be unlikely to meet its obligations under the Notes as they fall due, such as a credit rating downgrade; or a significant and prolonged decrease in the fair value of the Notes.

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

When considering whether or not objective evidence of impairment of the Notes exists, the Directors will initially consider whether or not the Company is continuing to receive interest on the Notes. However, whilst the failure to receive interest on the 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 for a financial instrument such as the Notes. Interest on the Notes is contingent upon Erste Bank having sufficient distributable profits and in the absence of such, the Company is not entitled to receive any interest. Thus, the Directors would 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 Notes, is considered to represent objective evidence of impairment.

As at the reporting date, the Company had received interest on the Notes since acquisition at the full coupon rate as stated in the Pricing Supplement applicable to the Notes. Consequently, despite the significant and prolonged decrease in the fair value of the Notes that had occurred, no objective evidence of impairment of the Notes existed as at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS - continued

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Preference Shares - financial liabilities at amortised cost

The Directors have considered the characteristics of the Preference Shares and the requirements of International Accounting Standard 32 'Financial Instruments: Presentation' ("IAS 32"). Preference Shares are classified as financial liabilities at amortised cost since the payments thereon are obligatory, the Company having no discretion to avoid payments.

The Preference Shares are recognised initially at the issue proceeds received less attributable cost. Subsequent to initial recognition, the Preference Shares are stated at amortised cost using the effective interest method.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Consequently, the Preference Shares are derecognised upon repurchase by the Company. Gains and losses thereon are recognised in the statement of comprehensive income when the liability is derecognised as well as through the amortisation process.

Revision of expected cash flows on financial liabilities at amortised cost

In accordance with IAS 39 AG8, the Directors review as at each reporting date whether or not there has been any change in the projected cash flows payable on the Preference Shares 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 Preference Shares will be adjusted to the net present value of projected future cash flows payable, discounted at the original projected internal rate of return on the Preference Shares (the "NPV"). As at the reporting date, no such change in projected cash flows had occurred since issue, with interest expected to continue to be paid under the Preference Shares in perpetuity.

Embedded derivative contracts

As disclosed in notes 6 and 9, the Notes held by the Company and the Preference Shares issued by it each contain an embedded derivative, being the fact that payments of interest thereon are contingent upon the existence of sufficient distributable profits at Erste Bank and the fact that payments of principal may be subject to a pro rata deduction of the net losses of Erste Bank, if any. The Directors have assessed that these embedded derivatives are closely related to the economic characteristics and risks of their host contract and have therefore not separately accounted for them.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognised:

Interest income on Notes

Interest income on Notes is recognised in the statement of comprehensive income on the accruals basis using the effective interest rate method, unless collectability is in doubt.

Interest expense on Preference Shares

The interest expense on Preference Shares is recognised in the statement of comprehensive income on the accruals basis using the effective interest rate method.

NOTES TO THE FINANCIAL STATEMENTS - continued

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Foreign currency translation

Transactions in foreign currency are translated to Euro, which is the functional and reporting currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to the statement of comprehensive income.

Taxation

Profits arising from the Company's activities are subject to Jersey Income Tax, currently at a rate of 0%.

Receivables

Receivables are recognised on an accruals basis and are carried at the expected recoverable amount.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Payables

Amounts payable are recognised on an accruals basis and are carried at cost, which is the consideration to be paid for services received, whether or not billed to the Company.

Operating segments

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. The Directors perform a regular review of the operating results of the Company and make decisions using financial information at the entity level only. Accordingly, the Directors believe that the Company has only one operating segment (see note 14).

The Directors are 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 business including the decisions to purchase and sell securities 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 Directors. Therefore the Directors retain full responsibility as to the major allocation decisions of the Company.

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 Preference Shares disclosed in Note 13 is obtained directly from the closing quoted market price as reported by Bloomberg on or immediately prior to the reporting date.

NOTES TO THE FINANCIAL STATEMENTS - continued

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Fair value estimation - continued

The Notes are neither quoted nor traded in an active market, being held exclusively by the Company. Consequently, no quoted market price exists for the Notes. The terms of the Notes are identical in all material respects to those of the Preference Shares, except for the fact that the Notes bear interest at the reference rate plus a margin of 0.13149%, whilst the Preference Shares bear interest at the reference rate plus a margin of 0.10%, a differential of 0.03149%.

Accordingly, in the Directors' opinion the fair value of the Notes may be estimated to be approximately equal and opposite to the fair value of the Preference Shares at all times, as adjusted for the estimated NPV of the margin differential, assuming that such margin differential is receivable in perpetuity, estimated using a discounted cash flow ("DCF") valuation model. The principal assumption adopted by the Directors in the DCF valuation model was that the Preference Shares and Notes are both potentially perpetual securities and it was therefore assumed that the coupon margin differential would be received on the Notes until 2023, as an approximation of the NPV in perpetuity.

IFRS 13 "Fair Value Measurement" ("IFRS 13") defines 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 Preference Shares and the related accrued interest thereon are currently classified within Level 2 of the fair value hierarchy on the basis that the market for the Preference Shares is currently not an active market as defined by IFRS 13. Although a number of brokers may 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 might be expected in an active market.

The Notes and the related accrued interest thereon 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 0.33%) is not significant. Consequently, the fair value of the Notes is considered to have been determined directly from the fair value of the Preference Shares, which is a Level 2 fair value.

If the market for the Preference Shares should become active during any future reporting period and remain active as at such reporting period end, then the Preference Shares and the related accrued interest thereon would be reclassified within Level 1 of the fair value hierarchy, whilst the Notes and the related accrued interest thereon would remain as classified within Level 2 of the fair value hierarchy. Similarly, should quoted prices no longer be available during any future reporting period and remain unavailable as

NOTES TO THE FINANCIAL STATEMENTS - continued

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Restatement – change in accounting policy: classification of the Notes as an available-for-sale ("AFS") financial asset (previously classified within loans and receivables ("LAR")

IAS 39.9(c) states that the category of LAR excludes financial assets "for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale". It was previously the interpretation of the Directors that the Notes were issued for an indefinite term and it was anticipated that the issuer of the Notes would redeem such Notes only if the book value at the time of the redemption were to be not less than the nominal amount. Therefore, it was anticipated that upon termination the entire nominal amount would be repaid, except in the event of credit deterioration of the issuer of the Notes. Consequently, the Notes were classified within LAR upon initial recognition.

It is the Directors' understanding that, although different interpretations of the relevant provisions of IAS 39 may have existed in the market place as at the date of initial recognition and subsequently, its interpretation of IAS 39.9(c) previously was quite widely accepted. However, on 29 October 2013 the European Securities and Markets Authority ("ESMA") issued its "14th extract from the EECS' Database of Enforcement", which included reference to the classification of loans and receivables for similar securities. The EECS is a forum which brings together all EU National Enforcers of financial information. The Directors noted that the EECS had agreed upon a different interpretation of the relevant provisions of IAS 39. Under the EECS' interpretation, financial instruments with principal amounts that may be reduced by the occurrence of accounting losses at the issuer are required to be classified as AFS financial assets by the holders of such financial assets. In the Directors' opinion, this represents a change in accounting practice requiring a consequent change in classification of the Notes in the financial statements of the Company.

Accordingly, the comparative amounts for 2012 and 2011 have been restated as follows:

Effect of change in statement of financial position

	As originally stated at 31 December 2012 EUR	As restated at 31 December 2012 EUR	As originally stated at 1 January 2012 EUR	As restated at 1 January 2012 EUR
Financial assets	127,041,000	62,976,129	274,500,000	101,398,104
Revaluation reserve	-	(64,064,871)	-	(173,101,896)

Effect of change in Statement of Comprehensive Income

	2012 As originally stated EUR	2012 As restated EUR
Other comprehensive income	-	109,037,025

The change in classification of the Notes has resulted in a mismatch between the measurement basis of the Notes and the measurement basis of the Preference Shares; i.e. the Notes are measured at fair value and the Preference Shares are measured at amortised cost. Such difference in measurement basis is reflected in the revaluation reserve in the statement of financial position.

Restatement – change in classification of certain items in the statement of cash flows

Certain figures presented in the statement of cash flows do not correspond to those originally presented

NOTES TO THE FINANCIAL STATEMENTS - continued

3. FINANCE REVENUE

	2013 EUR	2012 EUR
Income from AFS financial assets	**2,555,878**	4,338,971

4. FINANCE COSTS

	2013 EUR	2012 EUR
Dividends on Preference Shares	**2,508,358**	4,392,969

5. ADMINISTRATIVE EXPENSES

	2013 EUR	2012 EUR
Auditors' remuneration	**13,600**	12,900
Professional fees	**18,412**	8,746
Bank charges	**1,061**	227
	33,073	21,873

6. FINANCIAL ASSETS

	2013 EUR	Restated 2012 EUR	Restated 1 January 2012 EUR
Available-for-sale financial assets			
Subordinated Perpetual CMS Floating Rate Notes	**85,399,501**	62,976,129	101,398,104

At 31 December 2013, the Company held EUR 127,041,000 principal amount (31 December 2012: EUR 127,041,000 principal amount; 31 December 2011: EUR 274,500,000 principal amount) of Series No: 232 Subordinated Perpetual CMS Floating Rate Notes (the "Notes") issued by Erste Bank.

The Notes are redeemable at the option of Erste Bank on any interest payment date. Interest was receivable at the ten-year mid swap rate in EUR vs 6 month euribor (the "Reference Rate") plus a variable margin depending on the fixing of the EUR CMS 10, with a maximum rate of 8.335% per annum until 24 June 2013. On 19 June 2013 the Pricing Supplement dated 22 March 2004 was amended such that the interest rate for the interest period from and including 24 June 2013 to (but excluding) 24 September 2013 was at the Reference Rate plus a fixed margin of 0.44635% per annum (with a maximum rate of 9.3474% per annum) and the interest rate thereafter is now at the Reference Rate plus a fixed margin of 0.13149% per annum (with a maximum rate of 9.0325% per annum). Interest is receivable quarterly in arrears on each 24 March, 24 June, 24 September and 24 December.

NOTES TO THE FINANCIAL STATEMENTS - continued

7. RECEIVABLES

	2013 EUR	2012 EUR	1 January 2012 EUR
Interest income receivable	**55,271**	44,291	75,488

8. ISSUED CAPITAL

Authorised share capital

500,000 Ordinary Shares and 500,000 Unclassified Shares of GBP 0.01 each
500,000 Ordinary Shares and 500,000 Unclassified Shares of EUR 0.01 each
500,000 Ordinary Shares and 500,000 Unclassified Shares of US$ 0.01 each
5,000 Ordinary Shares and 5,000 Unclassified Shares of JPY 1.00 each

Issued share capital

	Issued capital 2013 EUR	Share premium 2013 EUR	Issued capital 2012 EUR	Share premium 2012 EUR
Ordinary Shares				
Issued and paid up share capital				
10 Ordinary Shares of EUR0.01 at a premium of EUR0.99 each	1	9	1	9
1 Ordinary Share of EUR0.01 at a premium of EUR224.99 issued on 14 December 2006	-	225	-	225
	1	234	1	234

The rights attaching to the Ordinary Shares are as follows:

- **As regards Income** - Subject to the Law and the provisions of the Company's Articles of Association, each Ordinary Share shall confer on the holder thereof the right to receive such profits of the Company available for distribution as the Directors may declare or the Members may resolve by Ordinary Resolution after any payment to or provision for the holders of the Preference Shares of any amount then payable in accordance with any Statement of Rights relating thereto and after payment of any other preferential dividend then payable on any other class of shares.

NOTES TO THE FINANCIAL STATEMENTS – continued

8. ISSUED CAPITAL - continued

- **As regards Capital** - Subject to the Law and the provisions of the Company's Articles of Association, on a winding-up or other return of capital (other than a purchase or redemption of any Preference Share or any share of any other class of redeemable shares) the holder of each Ordinary Share shall be entitled, following payment to the holders of the Preference Shares of all amounts then payable in accordance with any Statement of Rights and following payment in accordance with the rights of any other class of shares having priority in accordance herewith and following the repayment of the nominal amount of the capital paid-up on the nominal shares, to repayment of the nominal amount of the capital paid-up thereon and thereafter any surplus assets then remaining shall be distributed *pari passu* among the holders of the Ordinary Shares in proportion to the amounts paid-up thereon.

- **As regards Voting** - The holder of each Ordinary Share shall be entitled to receive notice of general meetings of the Company and class meetings relating to Ordinary Shares and to attend and vote there at.

Retained earnings

Retained earnings consist of accumulated profits

9. PREFERENCE SHARES

	2013 EUR	2012 EUR	1 January 2012 EUR
Current			
127,041 Series H Preference Shares of EUR0.01 at a premium of EUR999.99 each	**127,041,000**	127,041,000	252,500,000

At 31 December 2013, 127,041 Series H Floating Rate Non-cumulative Non-voting Preference Shares bearing a liquidation preference of EUR1,000 each were in issue (31 December 2012: 127,041 Preference Shares; 31 December 2011: 252,500 Preference Shares).

Dividends on the Preference Shares are payable at the Reference Rate plus 0.10% per annum, with a maximum rate of 9% per annum, subject to Erste Bank having sufficient distributable funds. Dividends are payable quarterly in arrears on each 24 March, 24 June, 24 September and 24 December.

Preference Shares are redeemable at the option of the Company, subject to the prior consent of Erste Bank on any dividend payment date and upon giving not less than 30 nor more than 60 business days notice to the holders of the Preference Shares. Upon redemption, the holders of Preference Shares will be entitled to receive EUR1,000 per share plus accrued dividends, less any pro rata deduction of the net losses of Erste Bank, if applicable.

These Preference Shares are listed on the Luxembourg Stock Exchange.

The Preference Shares rank ahead of the Ordinary shares in the event of liquidation, dissolution or winding up of the Company and have the benefit of a 'Support Agreement' entered into by the Company and Erste Bank for the purpose of fulfilling the Company's payment obligations in respect of the Preference Shares. Preference Shares do not carry the right to vote unless dividends are in arrears.

Notwithstanding the availability of sufficient assets of the Company to pay any liquidation distribution to the holders of the Preference Shares, if at the time such liquidation distribution is to be paid, proceedings are pending or have been commenced for the voluntary or involuntary liquidation, dissolution or winding up of Erste Bank, the liquidation distribution paid to the holders of the Preference Shares shall not exceed the amount per share that would have been paid as the liquidation distribution from the assets of Erste
pari passu with all asset party securities of Erste Bank and (iii) senior to Erste Bank's share capital.

NOTES TO THE FINANCIAL STATEMENTS - continued

10. PAYABLES

	2013 EUR	2012 EUR	1 January 2012 EUR
Dividends payable on Preference Shares	**54,494**	47,256	73,926
Accruals	**5,844**	6,310	6,397
	60,338	53,566	80,323

11. CASH AND CASH EQUIVALENTS

For the purpose of the Statement of Financial Position and the Statement of Cash Flows, cash and cash equivalents comprise the following balances:

	2013 EUR	2012 EUR	1 January 2012 EUR
Cash at bank	**446,171**	435,932	507,363

12. RELATED PARTY DISCLOSURES

The parent and ultimate parent Company

The parent Company of the Company is Erste Bank (Malta) Limited, a Company registered in Malta, with its registered address at 6, Rosa Marina Building, 216 Marina Seafront, Pieta PTA 9041. Erste Bank (Malta) Limited owns 100% of the ordinary shares in the Company.

The ultimate parent of the Company is Erste Group Bank AG ("Erste Bank") (formerly Erste Bank der Oesterreichischen Sparkassen AG) incorporated under the laws of Austria, with its registered office at Graben 21, 1010 Vienna, Austria. In light of the ownership structure of Erste Group Bank AG there is no one controlling party.

Related party transactions and balances

During the financial year interest receivable on Subordinated Perpetual CMS Floating Rate Notes issued by the ultimate parent Company amounted to EUR 2,555,878 (2012: EUR4,338,971). Accrued interest receivable at 31 December 2013 is separately disclosed in Note 7.

Key management personnel

Gerald Fleischmann, Martin Sadleder and Marouska Agius are senior employees of Erste Bank (Malta) Limited or Erste Group Bank AG ("Erste Bank") (formerly Erste Bank der Oesterrieichischen Sparkassen AG) or their affiliate companies. They do not receive Directors' fees.

Each of G.P Essex-Cater, H.C Grant and C. Ruark was an employee of a subsidiary of State Street Corporation ("SSC"). Affiliates of SSC provided Company secretarial and administrative services to the Company during the period at commercial rates. SSC ceased its provision of Company secretarial and administrative services with effect from 31st May 2013.

NOTES TO THE FINANCIAL STATEMENTS - continued

12. RELATED PARTY DISCLOSURES - continued

Financial risk management policies - continued

Each of G.P Essex-Cater, H.C Grant and C. Ruark is also a Director of Sanne Corporate Services Limited, a Company which provides administrative services to the Company during the period at commercial rates with effect from 1st June 2013.

Chris Ruark is also a Director of Sanne Secretaries Limited, a Company which provides Company secretarial services to the Company at commercial rates with effect from 1st June 2013.

13. FINANCIAL INSTRUMENTS

Financial risk management policies

Erste Bank (Malta) Limited being 100% owner of the Company uses a control and risk management system that is proactive and tailored to the group's risk profile. This system is based on a clear risk strategy consistent with the Company's business strategy. The system's goal is the early identification and management of risks and trends.

Due to the static nature of the Company, risk was assessed upfront during the set up of the special purpose vehicle between lawyers and Erste Group Bank AG itself. This resulted in careful selection of assets and liabilities with similar terms to minimise the risk within the Company. The Directors believe there has been no change to the risks.

The Company's principal financial assets comprise available-for-sale financial assets, cash at bank and receivables. Financial liabilities comprise Preference Shares and payables.

Fair values

At the reporting date, the carrying amounts of cash at bank, receivables and payables were estimated to be approximately equal to their fair values due to the short term maturities of these assets and liabilities.

	Carrying value 2013 EUR	Fair value 2013 EUR	Restated Carrying value 2012 EUR	Fair value 2012 EUR
AFS financial assets	85,399,501	85,399,501	62,976,129	62,976,129
Preference Shares	127,041,000	85,117,470	127,041,000	60,344,475

As stated in note 2.3, the AFS financial assets and the Preference Shares are both classified within Level 2 of the fair value hierarchy.

NOTES TO THE FINANCIAL STATEMENTS - continued

13. FINANCIAL INSTRUMENTS – continued

Market risk

Market risk is the risk of performance impact from the fluctuation in interest rates, exchange rate and security prices. However as the Company has only one loan outstanding which is not traded, where the borrower is the ultimate parent Company, Erste Group Bank AG security price risk can be considered as very limited. Interest rate risk and foreign currency risk, making up market risk, are dealt in detail below.

Although the commercial substance of the transactions entered into by the Company result in no material market price risk to the Company itself, the accounting mismatch between the Notes, which are carried at fair value with changes in such fair value being presented in OCI, and the Preference Shares, which are carried at amortised cost, is likely to produce fluctuations in the Company's results and financial position as presented in the Company's financial statements

Interest rate risk

Interest rate risk is the risk of adverse change in the fair value of financial instruments caused by movement in market interest rates. This type of risk arises, when mismatches exist between assets and liabilities in respect of their maturities or of the timing of interest rate adjustments.

Following the changes to the interest income during 2013, both interest income and expense are based on the ten year mid swap rate in EUR. By year end, the Company is completely neutral in terms of exposure to the market rate and is positioned to earn a net margin fixed at 0.03149% per annum

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's profit before tax (through the impact of floating rate borrowings).

	Increase/ decrease in basis points	Effect on profit before tax EUR
2013	**+20**	**-**
	-20	**-**
2012	+20	-
	-20	-

Foreign currency risk

Fluctuation in foreign exchange rates creates foreign currency risks. The Company has transactional currency exposures arising from interest receivables and dividend payables in Euro. As the timing of interest receivables in Euro matches that of dividend payables in Euro and the fact, that the base currency of the financial statement is Euro as well, the foreign currencies risk is negligible and limited only to certain administrative expenses incurred in foreign currencies, predominantly sterling.

Credit risk

The Company's exposure to credit risk with respect to financial assets arises from default of the counter party, with a maximum exposure equal to the carrying amounts. In particular, the Company is exposed to Erste Bank's credit risk as there is a concentration of credit risk with the ultimate parent Company. Erste Group AG's credit rating as at 31 December 2013 was A as categorized by Standard and Poor's (2012: A). The financial assets of the Company are neither past due nor impaired. Please refer to Note 6 for a detailed overview of the Company investments.

NOTES TO THE FINANCIAL STATEMENTS - continued

13. FINANCIAL INSTRUMENTS – continued

Credit risk – continued

The Company's maximum exposure to credit risk is represented by the principal balance outstanding on the Notes, being EUR 127,041,000 as at 31 December 2013.

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its payment obligations when they fall due under normal and stress circumstances.

The Company manages liquidity by timing the financial asset maturities on a basis similar to those of the financial liabilities. The Company also has the benefit of the Preference Shares in issue being limited recourse.

Liquidity risk relates principally to the Company's dividend payment obligations under the Preference Shares. The timing of cash flows receivable on interest accruing to the Company on its investments matches that of dividend payments. Therefore the Directors consider that there is no liquidity risk at all.

The table below summarises the maturity profile of the Company's financial liabilities, including estimated interest payable over the next 12 months and assuming that the Preference Shares might be redeemed within the next 12 months, at 31 December 2013 based on contractual undiscounted repayment obligations. The repayment obligations are based on the assumption that the interest rates in the future will be similar to those prevailing at 31 December 2013.

	Between 1 and 3 months	Between 3 months and 1 year	Total
2013	**EUR**	**EUR**	**EUR**
Preference Shares	653,922	129,142,893	129,796,815
Other liabilities - payables	60,338	-	60,338
Total liabilities	**760,969**	**129,142,893**	**129,857,153**
2012			
Preference Shares	607,574	128,897,475	129,505,049
Other liabilities - payables	53,566	-	53,566
Total liabilities	**661,140**	**128,897,475**	**129,558,615**

NOTES TO THE FINANCIAL STATEMENTS - continued

13. FINANCIAL INSTRUMENTS – continued

Liquidity risk – continued

The table below summarises the undiscounted maturity profile of the Company's financial assets, including estimated interest receivable over the next 12 months and assuming that the Notes might be redeemed within the next 12 months, at 31 December 2013 and 2012:

	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Total
2013	**EUR**	**EUR**	**EUR**	**EUR**
AFS financial assets	-	663,257	129,172,897	129,836,154
Other assets - receivables	-	55,271	-	55,271
Cash at bank	446,171	-	-	446,171
Total assets	**446,171**	**765,903**	**129,172,897**	**130,337,596**
2012				
AFS financial Assets	-	569,461	128,781,021	129,350,482
Other assets - receivables	-	44,291	-	44,291
Cash at bank	435,932	-	-	435,932
Total assets	**435,932**	**613,752**	**128,781,021**	**129,830,705**

Capital management

The primary objective of the Company is to raise capital for the Erste Bank group by raising money in the form of Preference Shares and in turn lends this capital to Erste Group Bank AG (formerly Erste Bank der Oesterreichischen Sparkassen AG). In doing so, the Company ensures to support the group's requirements, whilst retaining sufficient financial independence therefrom.

14. OPERATING SEGMENTS

Geographical information

All of the Company's revenues are generated from external sources as follows: Austria 100%.

Non-Current Assets

The Company does not have any non-current assets.

Major investment company

The Company's Note interest income is derived solely from Erste Bank, the issuer of the Notes.

15. POST BALANCE SHEET EVENTS

The direct owner of the Company, which at present is Erste Bank (Malta) Limited, is expected to change to Jersey Holding (Malta) Limited during the first quarter of 2014. The ultimate parent of the Company remains unchanged.