

# **BA-CA Finance (Cayman) Limited**

## **Financial Statements**

for the years ended December 31, 2014 and 2013  
and Independent Auditors' Report

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
**BA-CA Finance (Cayman) Limited**

We have audited the accompanying financial statements of BA-CA Finance (Cayman) Limited (the "Company"), which comprise the statement of financial position as at December 31, 2014, and the statements of comprehensive income (loss), changes in shareholders' equity and cash flows (all expressed in Euro) for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines as necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



To the Board of Directors of  
**BA-CA Finance (Cayman) Limited**

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*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2014, and the results of its operations, changes in its shareholders' equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Emphasis of Matter*

We draw attention to Note 10 to the financial statements, which indicates that the Company's broker, Caledonian Securities Limited ("CSL"), was placed into Controllorship. As a result, the Company's portfolio of held-to-maturity bonds and cash in sub-custody through CSL were temporarily frozen from February 10, 2015. As at the report date, CSL is in liquidation and the joint liquidators are in the process of reconciling and preparing for distribution of custody assets to their rightful owners.

A handwritten signature in black ink that reads "Deloitte &amp; Touche".

April 27, 2015

**BA-CA Finance (Cayman) Limited**  
**Statement of Financial Position**  
**December 31, 2014 and 2013**

*(stated in Euro)*

	Note	2014	2013
<b>ASSETS</b>			
Subordinated deposit	3,6	€ 245,000,000	€ 245,000,000
Cash and cash equivalents		25,253	-
Financial assets held to maturity	7	3,904,304	3,957,344
Receivable from Support Agreement with related party	4	962,512	1,461,999
Interest receivable	7	90,668	83,080
Due from Parent	5	1,796,563	1,334,776
Other assets		1,282	2,300
		<u>€ 251,780,582</u>	<u>€ 251,839,499</u>
<b>LIABILITIES</b>			
Hybrid subordinated securities (net of amortised transaction costs of pNil (2013: p417,873))	4,6	€ 250,000,000	€ 249,582,127
Interest payable		540,890	943,250
Other liabilities		2,779	2,800
		<u>250,543,669</u>	<u>250,528,177</u>
<b>SHAREHOLDER'S EQUITY</b>			
Ordinary shares, p1 par value 15,000 shares authorised and outstanding	8	15,000	15,000
Retained earnings		1,221,913	1,296,322
		<u>1,236,913</u>	<u>1,311,322</u>
		<u>€ 251,780,582</u>	<u>€ 251,839,499</u>

*See accompanying notes to financial statements.*

Approved by the Board of Directors on April 27, 2015

JOSEF DUREGGER DIRECTOR

NICOLA CORSETTI DIRECTOR

**BA-CA Finance (Cayman) Limited**  
**Statement of Comprehensive Income (Loss)**  
**for the years ended December 31, 2014 and 2013**  
*(stated in Euro)*

	Note	<u>2014</u>	<u>2013</u>
<b>INCOME</b>			
Interest income (net of amortisation)	3,7	€ (20,072)	€ 48,748
Gain from Support Agreement with related party	4	<u>5,054,263</u>	<u>5,091,927</u>
		<u>5,034,191</u>	<u>5,140,675</u>
<b>EXPENSES</b>			
Interest expense	4	5,050,512	5,088,177
Administrative expenses	5	<u>58,088</u>	<u>69,925</u>
		<u>5,108,600</u>	<u>5,158,102</u>
<b>NET LOSS AND TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>		<u>€ (74,409)</u>	<u>€ (17,427)</u>

*See accompanying notes to financial statements.*

**BA-CA Finance (Cayman) Limited**  
**Statement of Changes in Shareholder's Equity**  
**for the years ended December 31, 2014 and 2013**  
*(stated in Euro)*

	Share capital	Retained earnings	Total
<b>As at December 31, 2012</b>	€ 15,000	1,313,749	1,328,749
Net loss for the year	-	(17,427)	(17,427)
<b>As at December 31, 2013</b>	€ 15,000	1,296,322	1,311,322
Net loss for the year	-	(74,409)	(74,409)
<b>As at December 31, 2014</b>	€ 15,000	1,221,913	1,236,913

*See accompanying notes to financial statements.*

**BA-CA Finance (Cayman) Limited**  
**Statement of Cash Flows**  
**for the years ended December 31, 2014 and 2013**  
*(stated in Euro)*

	<u>2014</u>	<u>2013</u>
<b>CASH PROVIDED BY (USED IN):</b>		
<b>OPERATING ACTIVITIES</b>		
Net loss	€ (74,409)	€ (17,427)
Adjustment for item not affecting cash:		
Amortisation of transaction costs relating to the issuance of hybrid subordinated securities	417,873	515,000
Amortisation of bond premium	180,410	34,333
Changes in operating assets and liabilities:		
Term deposits	-	3,822,062
Receivable from Support Agreement with related party	499,487	(611,927)
Interest receivable	(7,588)	(83,080)
Due from Parent	(461,787)	241,378
Other assets	1,018	(2,300)
Interest payable	(402,360)	93,178
Other liabilities	(21)	460
<b>Net cash provided by operating activities</b>	<u>152,623</u>	<u>3,991,677</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of investments	(1,927,370)	(3,991,677)
Proceeds from maturity of bonds	1,800,000	-
<b>Net cash used in investing activities</b>	<u>(127,370)</u>	<u>(3,991,677)</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	25,253	-
<b>BEGINNING CASH AND CASH EQUIVALENTS</b>	-	-
<b>ENDING CASH AND CASH EQUIVALENTS</b>	<u>€ 25,253</u>	<u>€ -</u>
<b>SUPPLEMENTARY INFORMATION</b>		
Interest received	€ 152,750	€ Nil
Interest paid	€ (5,035,000)	€ (4,479,999)

*See accompanying notes to financial statements.*

**BA-CA Finance (Cayman) Limited**  
**Notes to Financial Statements**  
**for the years ended December 31, 2014 and 2013**  
*(stated in Euro)*

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**1. The Company and its principal activity**

BA-CA Finance (Cayman) Limited (the "Company") is a wholly owned subsidiary of Alpine Cayman Islands Ltd. (the "Parent") and an indirect wholly-owned subsidiary of UniCredit Bank Austria AG ("UniCredit BA").

The Company was incorporated in the Cayman Islands on September 23, 2004 for an unlimited duration and with limited liability under the Companies Law of the Cayman Islands. The Company is economically dependent on the Parent.

The Company was established to issue hybrid subordinated securities. The proceeds of these securities were advanced to the Parent and are used for general corporate purposes of UniCredit BA, its subsidiaries and affiliates.

The Company has received an undertaking from the Cayman Islands Government exempting it from all local income, profits, and capital gains taxes until October 12, 2024. No such taxes are levied in the Cayman Islands at the present time.

The Company's registered office is located at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

**2. Significant accounting and reporting policies**

***(a) Statement of compliance***

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The accounting policies have been applied consistently by the Company and are consistent with those used in previous years.

***(b) Basis of preparation***

The financial statements are presented in Euro.

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



**BA-CA Finance (Cayman) Limited**  
**Notes to Financial Statements**  
**for the years ended December 31, 2014 and 2013**  
*(stated in Euro)*

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**2. Significant accounting policies (continued)**

***(c) Cash and cash equivalents***

Cash and cash equivalents consist of cash balances in custody with a financial institution with an original maturity of three months or less.

***(d) Subordinated deposit***

The subordinated deposit consists of interest bearing balances held with the Parent.

***(e) Hybrid subordinated securities***

Hybrid subordinated securities have been classified by the Company as a liability in accordance with International Accounting Standard 32, *Financial Instruments: Disclosure and Presentation* (IAS 32). In the event of the winding-up of the Company, holders at the time will be entitled to receive the nominal value of each security plus accrued and unpaid dividends, but will have no right or claim to any of the remaining assets of the Company. Dividend payments made to holders of the securities are classified as interest expense on the statement of comprehensive income (loss).

The securities were initially recognised at nominal value less transaction costs, and the transaction costs are amortised over ten years (the estimated life of the securities). The amortisation of the transaction costs is included in interest expense.

***(f) Held-to-maturity investments***

Bonds with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost less any impairment.

***(g) Interest income and expense***

Interest income and expense are recorded on an accrual basis. Interest income comprises interest earned on cash, subordinated deposit and held-to-maturity investments. Interest expense comprises dividend payments on hybrid subordinated securities.

***(h) Gain from support agreement with related party***

Proceeds due from the Support Agreement are recorded on an accrual basis as and when the interest expense from the dividend payments on the hybrid subordinated securities is recognized. See Note 4 for further details.

***(i) Identification and measurement of impairment***

The subordinated deposit, carried in the statement of financial position at cost, is assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset would be considered impaired when objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

**BA-CA Finance (Cayman) Limited**  
**Notes to Financial Statements**  
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**2. Significant accounting policies (continued)**

***(i) Identification and measurement of impairment (continued)***

Objective evidence that the subordinated deposit is impaired include significant financial difficulties of the Parent, default or delinquency by the Parent, restructuring of amount due on terms that the Company would not consider otherwise, indications that the Parent will enter bankruptcy, or adverse changes in the payment status of the Parent other than those allowed by the Deposit Agreement (Note 3).

An impairment loss in respect of a financial asset carried at cost is calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and receivables. Interest on impaired assets continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

**3. Subordinated deposit**

Upon receipt of proceeds from issuance of the hybrid subordinated securities, the Company deposited an amount of €245,000,000 with the Parent. The deposit, together with any accrued interest and costs and expenses in connection therewith, are subordinated to the claims of all the creditors of the Parent, but are senior to the claims of the holders of the ordinary shares of the Parent.

The deposit bears interest at a variable rate as stipulated in the subordinated deposit agreement (the "Deposit Agreement") dated October 25, 2004. Interest is receivable semi-annually in arrears. The deposit is repayable solely at the option of the Parent until the date the hybrid subordinated securities (Note 4) are redeemed.

On November 8, 2013, the Company was informed by the Parent that the interest under the Deposit Agreement due on April 28, 2014 and October 28, 2014 would not be paid. On March 18, 2013, the Parent informed the Company that the interest under the Deposit Agreement due on April 28, 2013 and October 28, 2013 would not be paid. Accordingly, the Company did not record any interest income relating to subordinated deposits during 2014 or 2013.

**BA-CA Finance (Cayman) Limited**  
**Notes to Financial Statements**  
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*(stated in Euro)*

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**4. Hybrid subordinated securities**

On October 28, 2004 the Company issued 250,000 Perpetual Non-Cumulative Non-Voting Fixed/Floating Rate Preferred Securities at €1,000 each. These securities are listed on Euronext Amsterdam N.V.

These securities are redeemable at the option of the Company, subject to the prior consent of UniCredit BA.

The hybrid subordinated securities entitle holders to receive non-cumulative preferential cash dividends subject to certain limitations. These limitations are identified in the offering circular (dated October 25, 2004):

- a) Unavailability of distributable profit.
- b) UniCredit BA determined that in accordance with Austrian Banking regulations, UniCredit BA fails to meet capital ratios and would be limited in making payment to holders hybrid subordinated securities.
- c) There is in effect, any law of relevant regulatory authority which prohibits UniCredit BA from making any payment to holders of hybrid subordinated securities.

For the period from October 28, 2004 to October 28, 2005, the preferential cash dividends were calculated at a rate of 6% per annum; after October 28, 2005, the preferential cash dividends were calculated at a variable rate as stipulated in the offering circular dated October 25, 2004. The dividends are payable semi-annually in arrears with the first payment having been made as scheduled on April 28, 2005. The dividends are reported as interest expense in the accompanying financial statements.

These securities were issued with the benefit of a support agreement entered into with UniCredit BA (the "Support Agreement"). Should the Company have insufficient funds to enable it to meet in full all of its obligations under or in respect of these securities, UniCredit BA will make available to the Company sufficient funds to enable it to meet its payment obligations.

As the Company did not receive interest on the subordinated deposit as discussed in Note 3, on March 18, 2014 and March 18, 2013 the Company requested financial support from Unicredit BA under the Support Agreement dated October 28, 2004. The requests were approved and funds received by the Company on April 28, 2014, October 28, 2014, April 29, 2013 and October 28, 2013.

At December 31, 2014, €962,512 (2013: €1,461,999) of financial support is receivable by the Company. During the year ended December 31, 2014, the Company earned €5,054,263 (2013: €5,091,927) in gains pursuant to proceeds due under the Support Agreement.

**BA-CA Finance (Cayman) Limited**  
**Notes to Financial Statements**  
**for the years ended December 31, 2014 and 2013**  
*(stated in Euro)*

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**5. Related party transactions**

Related party balances and transactions not disclosed elsewhere in these financial statements include the following:

The Company had a receivable due from the Parent in the amount of p1,796,563 as at December 31, 2014 (2013: p1,334,776) in relation to administration, accounting, audit and legal fees incurred during the year.

The Company paid administrative fees of p25,000 (2013: p25,000) to the Parent. These amounts are included in administrative expenses on the statement of comprehensive income (loss).

At December 31, 2014, UniCredit BA, the ultimate parent of the Company owned 62.0% (2013: 62.0%) of the outstanding hybrid subordinated securities with a book value of p155,436,000 (2013: p155,426,000).

**6. Fair value disclosure of financial instruments**

The following disclosures represent the Company's best estimate of the fair value of financial instruments. The fair value of hybrid subordinated securities is based on current market quotations as these are exchange-traded. The fair value of the subordinated deposit is determined based on the price of the exchange-traded subordinated securities. Management estimated this to be representative of fair value due to the similar duration, interest rate risk and credit risk of the two instruments. In accordance with IFRS 13 Fair Value Measurement, the Company has classified the financial instruments listed below at Level 2 in the fair value hierarchy.

The carrying and fair values of certain financial instruments as of December 31, 2014 are summarised as follows:

	<u>Carrying value</u>	<u>Fair value</u>
<u>Assets:</u>		
Subordinated deposit	p 245,000,000	p 158,407,000

<u>Liabilities:</u>		
Hybrid subordinated securities	250,000,000	161,640,000

The carrying and fair values of certain financial instruments as of December 31, 2013 are summarised as follows:

	<u>Carrying value</u>	<u>Fair value</u>
<u>Assets:</u>		
Subordinated deposit	p 245,000,000	p 159,103,000

<u>Liabilities:</u>		
Hybrid subordinated securities	249,582,128	162,342,500

**BA-CA Finance (Cayman) Limited**  
**Notes to Financial Statements**  
**for the years ended December 31, 2014 and 2013**  
*(stated in Euro)*

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**6. Fair value disclosure of financial instruments (continued)**

The fair value of financial instruments that are short-term in nature or re-priced frequently and have a history of negligible credit losses is considered to approximate their carrying value. Those instruments include balances recorded in interest receivable, cash, interest payable and other liabilities.

*Credit risk*

Credit risk arises from the chance of counterparties defaulting on their contractual obligations. The risk of credit losses is mitigated as the Parent is a part of a large multinational bank with high credit ratings.

*Market risk*

Market risk is the potential loss the Company may incur as a result of changes in the market prices of a particular instrument, whether these changes are caused by factors specific to the instrument or its issuer or factors affecting all securities traded in the market. The Company is not directly exposed to any market risk on its financial instruments as the carrying value is not fair value.

*Interest rate risk*

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. As the interest rates on the subordinated deposit and hybrid subordinated securities are reset at the same time, and determined using the same reference rate, interest rate risk is perfectly hedged.

*Liquidity risk*

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations from its financial liabilities. The liquidity risk is mitigated by timing the payment obligations on its hybrid subordinated securities concurrently with the liquidity terms of the subordinated deposit and by the support received from UniCredit BA.

**7. Financial Assets Held to Maturity**

As at December 31, 2014, the outstanding financial assets held-to-maturity are as follows:

Corporate bonds	<u>€ 3,904,304</u>
(2013: €3,957,344)	

At December 31, 2014, the Company held corporate bonds with fixed coupon interest rates ranging from 2.875% to 7% (2013: 2.875% to 4.875%) which mature between February 2, 2015 and October 12, 2016 (2013: May 30, 2014 and July 13, 2015). Fair value approximates amortised cost as of December 31, 2014 and 2013.

**BA-CA Finance (Cayman) Limited**  
**Notes to Financial Statements**  
**for the years ended December 31, 2014 and 2013**  
*(stated in Euro)*

**8. Share capital**

		2014	2013
Authorised:			
15,000 ordinary shares of £1 each	£	15,000	15,000
Allotted, called up and fully paid:			
15,000 ordinary shares of £1 each	£	15,000	15,000

The common stock issued by the Company is held entirely by the Parent. Each share has a right to vote and a right to dividends.

**9. Capital risk management**

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximizing the return to the shareholder through the optimization of debt and equity balances. The overall strategy remains unchanged from 2013.

**10. Subsequent events**

On March 17, 2015, the Parent suspended the April 28, 2015 and October 28, 2015 payments of interest to the Company on the subordinated deposit. Suspension was allowed by Clause 3.4 of the Agreement between the parties. As a result, the Company will have insufficient funds to meet the April 28, 2015 and October 28, 2015 dividend obligations on the hybrid subordinated securities in issue (Note 4).

On March 17, 2015, in accordance with Clause 2.1.1 of the Support Agreement dated October 28, 2004, the Company requested Unicredit BA make sufficient funds available to satisfy the Company's dividend obligations. Funds will be received before the Company's dividend obligations become due.

On February 10, 2015, the Company's broker service provider, Caledonian Securities Limited (öCSLö), was placed into Controllorship by the Cayman Islands Monetary Authority (öCIMAö) and ordered to cease its operations. As a result, the Company's portfolio of held-to-maturity bonds and cash in sub-custody through CSL were temporarily frozen from that date. Upon hearing an application made by CIMA, CSL was ordered to be placed into liquidation by an Order of the Grand Court of the Cayman Islands dated February 23, 2015, and Joint Liquidators (öJOLsö) were appointed. As at the report date, the JOLs are in the process of reconciling and preparing for distribution of custody assets to their rightful owners.