

BA-CA Finance (Cayman) Limited

Financial Statements

for the six-month period January 1 – June 30, 2019

Report of the Company Directors

The directors of BA-CA Finance (Cayman) Limited (the “Company”) are pleased to present the Company’s financial statements for the six-month period ended June 30, 2019.

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 operating results so far for the 2019 year was positive, as expected. The Company was established for the sole purpose of issuing hybrid subordinated securities. The proceeds of these securities are used for general corporate purposes of UniCredit BA, its subsidiaries and affiliates. The Company is designed to take in interest revenue from a subordinated deposit with the Parent and pay dividends on the subordinated securities, in the process generating net interest income.

The outlook for the rest of 2019 is expected to be roughly the same.

Sincerely,

MARKUS SCHWIMANN

Mr. Markus Schwimann, Director
September 30, 2019

NICOLA CORSETTI

Mr. Nicola Corsetti, Director
September 30, 2019

Responsibility Statement

The directors of BA-CA Finance (Cayman) Limited (the “Company”) submit herewith the unaudited financial statements for the six-month period ended June 30, 2019.

Company overview

The Company is an indirect wholly-owned subsidiary of UniCredit Bank Austria AG (“UniCredit BA”). The Company was incorporated in the Cayman Islands on September 23, 2004. The Company is economically dependent on UniCredit BA.

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

Statement as required by the Decree Implementing the Directive on Transparency for Issuers under the Wft:

The accompanying financial statements for the Company, prepared in accordance with IFRS issued by the IASB, provide to the best of our knowledge a true and fair view of the Company’s situation as at June 30, 2019 and results of its operations during the six-month period ended. Material risks, if any, are promptly disclosed.

The Report of the Company Directors has been presented in such a way as to provide a true and fair view of the financial position and performance of the Company.

Approved on behalf of the Board on September 30, 2019:

MARKUS SCHWIMANN

Mr. Markus Schwimann, Director

NICOLA CORSETTI

Mr. Nicola Corsetti, Director

BA-CA Finance (Cayman) Limited
Statement of Financial Position
June 30, 2019 (Unaudited)

(stated in Euro)

	Note	June 30, 2019 (unaudited)	December 31, 2018*
ASSETS			
Cash and cash equivalents	2,3	€ 3,981,707	€ 3,982,507
Receivable from Support Agreement with related party	5,7	-	-
Other assets		2,083	4,166
Due from Parent	6,7	2,198,509	2,130,398
Subordinated deposit, including interest receivable	2,4,7	174,240,415	206,955,935
		<u>€ 180,422,714</u>	<u>€ 213,073,006</u>
LIABILITIES			
Other liabilities		7,618	21,720
Hybrid subordinated securities, including interest payable	2,5,6,7	177,749,167	211,128,333
		<u>177,756,785</u>	<u>211,150,053</u>
SHAREHOLDER'S EQUITY			
Ordinary shares, €1 par value 15,000 shares authorised and outstanding	8	15,000	15,000
Retained earnings	2	2,650,929	1,907,953
		<u>2,665,929</u>	<u>1,922,953</u>
		<u>€ 180,422,714</u>	<u>€ 213,073,006</u>

** The 2018 figures were prepared in accordance with IFRS and including IFRS 9 which was adopted on January 1, 2018.*

See accompanying notes to financial statements.

Approved by the Board of Directors on September 30, 2019:

MARKUS SCHWIMANN DIRECTOR

NICOLA CORSETTI DIRECTOR

BA-CA Finance (Cayman) Limited
Statement of Comprehensive Income (Loss)
for the period January 1 – June 30, 2019 (unaudited)
(stated in Euro)

	Note	January 1 – June 30, 2019 (unaudited)	Year ended December 31, 2018*
INCOME			
Interest income		€ 1,249,090	€ 2,926,664
Income from Support Agreement with related party	5,6	-	-
		<u>1,249,090</u>	<u>2,926,664</u>
VALUATION GAIN/LOSS	2,3,7	<u>663,650</u>	<u>275,592</u>
EXPENSES			
Interest expense	5,6	1,125,417	2,717,499
Administrative expenses	6	44,347	81,433
		<u>1,169,764</u>	<u>2,798,932</u>
NET INCOME FOR THE YEAR		742,976	403,324
NET COMPREHENSIVE INCOME FOR THE YEAR		<u>€ 742,976</u>	<u>€ 403,324</u>

** The 2018 figures were prepared in accordance with IFRS and including IFRS 9 which was adopted on January 1, 2018.*

See accompanying notes to financial statements.

BA-CA Finance (Cayman) Limited
Statement of Changes in Shareholder's Equity
for the period January 1 – June 30, 2019 (unaudited)
(stated in Euro)

		Share Capital	Retained earnings		Total
As at January 1, 2018	€	15,000	€	995,452	€ 1,010,452
IFRS 9 transition effect				509,177	509,177
Net income for the year		-		403,324	403,324
As at December 31, 2018	€	15,000	€	1,907,953	€ 1,922,953
Net income for the year		-		742,976	742,976
As at June 30, 2019 (unaudited)	€	15,000	€	2,650,929	€ 2,665,929

See accompanying notes to financial statements.

BA-CA Finance (Cayman) Limited
Statement of Cash Flows
for the period January 1 – June 30, 2019 (unaudited)
(stated in Euro)

	January 1 – June 30, 2019 (unaudited)	Year ended December 31, 2018 *
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net income (loss)	€ 742,976	€ 403,323
Adjustment for items not affecting cash:		
Valuation gain	(663,650)	(275,592)
Changes in operating assets and liabilities:		
Receivable from Support Agreement with related party	-	4,270
Interest receivable	196,670	(40,417)
Due from Parent	(68,111)	(120,842)
Other assets	2,083	(204)
Interest payable	(196,666)	21,249
Other liabilities	(14,102)	8,012
Net cash provided by operating activities	(800)	(200)
CHANGE IN CASH AND CASH EQUIVALENTS	(800)	(200)
PROVISION RESERVE		(1,581)
BEGINNING CASH AND CASH EQUIVALENTS	3,982,507	3,984,288
ENDING CASH AND CASH EQUIVALENTS	€ 3,981,707	€ 3,982,507
SUPPLEMENTARY INFORMATION		
Interest received	€ 1,461,254	€ 2,886,247
Interest paid	€ (1,337,500)	€ (2,696,250)

** The 2018 figures were prepared in accordance with IFRS and including IFRS 9 which was adopted on January 1, 2018.*

See accompanying notes to financial statements.

BA-CA Finance (Cayman) Limited
Notes to Financial Statements
for the period January 1 – June 30, 2019 (unaudited)
(stated in Euro)

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”) issued by IASB. The accounting policies have been applied consistently by the Company and are consistent with those used in previous years, with the exception of IFRS 9.

(b) Basis of preparation

The financial statements are presented in Euro.

The financial statements of the Company for the first half of 2019 are unaudited and have not been reviewed by the auditors. The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. Fair value as of June 30, 2019 has been disclosed in Note 6.

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 key areas of estimate are the estimations of fair value. When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

BA-CA Finance (Cayman) Limited
Notes to Financial Statements
for the period January 1 – June 30, 2019 (unaudited)
(stated in Euro)

2. Significant accounting policies (continued)

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

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

(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. The Subordinated deposit is classified as loans and receivables.

(e) Due from Parent

Due from Parent consists of a receivable balance the Parent holds in cash on behalf of the Company. In turn, the Parent utilizes this balance to cover the day to day operational expenses of the Company. Due from Parent is classified as short-term receivables.

(f) 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.

The hybrid subordinated securities entitle holders to receive non-cumulative preferential cash dividends subject to certain limitations as identified in the offering circular (dated October 25, 2004). However, these limitations do not create the unconditional right for the Company to avoid delivering payment to holders of the securities. Dividend payments made to holders of the securities are classified as interest expense on the statement of comprehensive income (loss).

The securities are valued at fair value through P&L in accordance with the adoption of IFRS 9.

(g) Interest income and expense

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

(h) Income 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 5 for further details.

BA-CA Finance (Cayman) Limited
Notes to Financial Statements
for the period January 1 – June 30, 2019 (unaudited)
(stated in Euro)

2. Significant accounting policies (continued)

(i) Recent accounting pronouncements

As of December 31, 2018, the European Commission endorsed the following accounting principles that will be applicable for reporting periods beginning on or after 1 January 2019:

- IFRS16 - Leasing (EU Regulation 2017/1986);
- IFRIC 23 Uncertainty over Income Tax Treatments (Reg. UE 2018/1595);
- Amendments to IFRS9: Prepayment Features with Negative Compensation (EU Regulation 2018/498).

No impact is expected from these pronouncements.

In 2016 the European Commission endorsed the following accounting principles that is applicable for reporting periods beginning on or after January 1, 2018:

- IFRS 9 Financial Instruments;
- IFRS 15 Revenue from Contracts with Customers

The significant changes required by IFRS 9 in the organization are split into two main areas:

- “Classification and Measurement”, with the goal of ensuring that financial instruments are classified under the new IFRS 9 criteria, and
- “Impairment”, with the goal of developing and implementing models and methods to calculate impairments.

The Classification and Measurement of financial assets is based on

- a) The business model in which the assets are held and
- b) The contractual cash-flow characteristics of the respective instruments (the so-called “SPPI-criterion”, as instruments must result in payments that are “solely payments of principal and interest”, otherwise they must be measured mandatorily at fair value through the statement of comprehensive income (loss)).

For all financial assets held by the Company, the business model is “held-to-maturity”, which means the prime aim is to hold the instruments until maturity and collect the cash in-flows of interest and principal.

As cash management is done by means of overnight and short-term fixed deposits, disposals before maturity are not part of the business model and only occur in rare circumstances. The business model would thus allow for all financial assets to be classified as amortised cost.

However, the Company has a particular purpose; it has issued the hybrid subordinated securities and has deposited the gathered funds with UniCredit BA (via the Parent). The corresponding deposit is of a subordinate character, as the interest received on this deposit is dependent on positive results in the financial statements of UniCredit BA. This means that under certain conditions, as discussed in Note 4, interest can be cancelled based on the terms of the subordinated deposit and such cancellations do not represent a default event.

BA-CA Finance (Cayman) Limited
Notes to Financial Statements
for the period January 1 – June 30, 2019 (unaudited)
(stated in Euro)

2. Significant accounting policies (continued)

(i) Recent accounting pronouncements (continued)

In addition, the interest tenor incorporates a modification of the time value, as the semi-annual interest payments are linked to the 10-year swap rate but are reset on a semi-annual basis. This time-value modification would require a benchmark-test according to IFRS 9.4.1.9B, but it can be concluded already on a qualitative basis, that such a benchmark-test fails.

Based on this assessment, the financial assets related to the subordinated deposit are measured at fair value through profit or loss.

IFRS 9 does generally not change the treatment of financial liabilities, as compared to IAS 39. However, IFRS 9 brings about certain changes for the accounting for financial assets (in the case of the Cayman entities, in particular in relation to the subordinate deposits). These changes have an impact on retained earnings and thus equity. Therefore, IFRS 9 allows reassessing the “Fair Value Option” (the one-time choice to designate certain instruments to the category “voluntarily designated as @FV/P&L”).

In relation to financial liabilities, the transition requirement in IFRS 9.7.2.10 allows for such designation, if such designation will mitigate an accounting mismatch that would otherwise emerge (IFRS 9.4.2.2). Leaving the hybrid securities accounted for at amortised costs, while the relating deposits are measured @FV/P&L would definitely result in such an accounting mismatch with severe impacts of the equity of the entity. The resulting accounting mismatch would lead to the fact that the financial statements would no longer convey the true and fair view of the economic performance of the entity.

One should note in this context that under the (new) fair value option for financial liabilities under IFRS 9, changes in the fair value of these liabilities that are attributable to changes in the credit risk of that liability shall generally be presented in other comprehensive income, following IFRS 9.5.7.8. In the particular case of these liabilities, the relevant credit risk is the one of UCBA (as there is a “support agreement” that UCBA will always make sure that the issuing entities will be in a position to make the relevant payments out of the notes).

However, this would still not fully do away with the accounting mismatch, as the same credit risk effect will cause fluctuations in the relating assets (deposits), that inevitably need to be measured against P&L (in their entirety). For such situations, IFRS 9.5.7.8 foresees an exception, under which it is allowed to show the entire fair value changes of the liability in P&L.

The Company elected the fair value option for their hybrid securities in order to bring the measurement in line with the mandatory fair value measurement of the subordinate deposits. The fair value of the hybrid subordinated securities has been calculated and presented at Note 7 as prescribed under IAS 39. The process has not been changed under IFRS 9.

The Company has decided to exploit the option provided by the accounting standard not to restate comparative figures of previous years, consequently, the first time adoption of the new standard is January 1, 2018.

BA-CA Finance (Cayman) Limited
Notes to Financial Statements
for the period January 1 – June 30, 2019 (unaudited)
(stated in Euro)

2. Significant accounting policies (continued)

The net effect of the fair value election is a positive impact on the statement of comprehensive income (loss) caused by the fact that the nominal amounts of the hybrid subordinated securities are slightly higher than the subordinated deposits. When applied at January 1, 2018, the net impact would be a gain of approximately €500,000. Further detailed analysis is included in Notes 3 and 7.

IFRS 9 also changes the way credit loss allowances for instruments measured at amortised cost are to be calculated. The main change is that for all such instruments, at least the 12m expected credit loss (ECL) must be booked. In case a significant increase in the credit risk has to be observed in relation to a certain financial asset, this asset must carry a credit loss allowance based on the lifetime expected credit losses for that instrument. There was not a significant increase in credit risk in 2018 and it is observed that the majority of financial assets is in relation to UniCredit BA (which has opted to be measured at fair value, discussed above), while all other receivables against third parties are negligible. Therefore, the impact of impairment is deemed to be immaterial.

There is no impact from IFRS 15, as the Company has no customers and therefore no revenue from contracts with customers.

3. Cash and cash equivalents

IFRS 9 also changes the way, credit loss allowances for instruments measured at amortised cost (or FV/OCI) need to be calculated. The main change is that for all such instruments, at least the 12m expected credit loss (ECL) must be booked. In case a significant increase in the credit risk has to be observed in relation to a certain financial asset, this asset must carry a credit loss allowance based on the lifetime expected credit losses for that instrument. There was not a significant increase in credit risk in 2019.

The carrying and amortized cost values of cash and cash equivalents as of June 30, 2019 are summarised as follows:

	<u>Carrying value</u>	<u>Provision</u>	<u>Amortized cost</u>
Cash at bank	€ 3,983,288	€ (1,581)	€ 3,981,707

The carrying and amortized cost values of cash and cash equivalents as of January 1, 2019 are summarised as follows:

	<u>Carrying value</u>	<u>Provision</u>	<u>Amortized cost</u>
Cash at bank	€ 3,984,088	€ (1,581)	€ 3,982,507

BA-CA Finance (Cayman) Limited
Notes to Financial Statements
for the period January 1 – June 30, 2019 (unaudited)
(stated in Euro)

4. 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. The interest receivable for June 30, 2019 is €290,415 (Dec 31, 2018: €487,085).

On March 16, 2017, the Parent suspended the April 28, 2017 and October 28, 2017 payments of interest to the Company on the subordinated deposit. Suspension was allowed by Clause 3.4 of the Agreement between the parties. Accordingly, the Company did not record any interest income relating to the subordinated deposit due during 2017. The Company resumed accruing interest income related to the subordinated deposit on October 29, 2017.

IFRS 9 Transition Effect

As noted above, the subordinated deposits are accounted for at fair value with the initial valuation losses accounted for directly in equity and the 2018 related valuation losses flowing through the P&L. We have summarized the impact below.

Initial impact on Equity

	IAS 39 31.12.2017 EUR	IFRS 9 01.01.2018 EUR	FTA-Effect EUR
Subordinated deposit	245,000,000	219,970,800	-25,029,200

Fair value impact on P&L

	IFRS 9 01.01.2018 EUR	IFRS 9 12.31.2018 EUR	2018 Impact on P&L EUR
Subordinated deposit	219,970,800	206,468,850	-13,501,950

BA-CA Finance (Cayman) Limited
Notes to Financial Statements
for the period January 1 – June 30, 2019 (unaudited)
(stated in Euro)

4. Subordinated deposits (continued)

Fair value hierarchy

The fair value measurements used above for the subordinated deposits have been categorized as Level 2 fair value based on the fact that market quotes are not available for these deposits. The factors used to determine the fair value of the subordinated deposits are the prices of the hybrid subordinated securities discussed in Note 5. The payment terms of the subordinated deposits were set up to replicate the hybrid subordinated securities and the Support Agreement allows for the replication of credit risk to be applied to the subordinated deposits.

This change in market value is based on comprehensive factors such as the yield curve for EUR denominated fixed income securities, credit risk related to UniCredit Bank Austria AG (which is the appropriate credit risk due to the Support Agreement) and liquidity of securities that have limited trading volume.

5. 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. and other European exchanges.

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 of 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.

BA-CA Finance (Cayman) Limited
Notes to Financial Statements
for the period January 1 – June 30, 2019 (unaudited)
(stated in Euro)

5. Hybrid subordinated securities (continued)

As the Company did not receive interest on the subordinated deposit as discussed in Note 3, on March 16, 2017, 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, 2017 and October 28, 2017.

At June 30, 2019, €Nil (2018: €Nil) of financial support is receivable by the Company. During the period ended June 30, 2019, the Company earned €Nil (2018: €Nil) in income pursuant to proceeds due under the Support Agreement. As discussed in Note 3, the Support Agreement was not utilized during 2018 and 2019 because the Company resumed accruing interest income on the subordinated deposit on October 29, 2017.

IFRS 9 Transition Effect

As noted above, the hybrid subordinate bonds are accounted for at fair value with the initial valuation gains accounted for directly in equity and the 2018 related valuation gains flowing through the P&L. We have summarized the impact below.

Initial impact on Equity

	IAS 39 31.12.2017 EUR	IFRS 9 01.01.2018 EUR	FTA-Effect EUR
Hybrid subordinated securities	250,000,000	224,460,000	25,540,000

Fair value impact on P&L

	IFRS 9 01.01.2018 EUR	IFRS 9 12.31.2018 EUR	2018 Impact On P&L EUR
Hybrid subordinated securities	224,460,000	210,682,500	13,777,500

Fair value hierarchy

The fair value measurements used above for the hybrid subordinated securities have been categorized as Level 2 fair value based on the market quotes obtained from Bloomberg along with the following comprehensive factors: the yield curve for EUR denominated fixed income securities, credit risk related to UniCredit Bank Austria AG (which is the appropriate credit risk due to the Support Agreement) and liquidity of securities that have limited trading volume.

BA-CA Finance (Cayman) Limited
Notes to Financial Statements
for the period January 1 – June 30, 2019 (unaudited)
(stated in Euro)

6. Related party transactions

Significant related party balances and transactions not disclosed elsewhere in these financial statements include the following items.

At June 30, 2019, the Company held cash and cash equivalents (gross of provisions) with UniCredit BA, the ultimate parent of the Company, of €3,983,288 (2018: €3,984,288). Corresponding bank fees totaling €200 (2018: €200) was paid to UniCredit BA during the year and is included in administrative expenses on the statement of comprehensive income (loss).

At June 30, 2019, the Company had a receivable due from the Parent in the amount of €2,198,509 (2018: €2,130,398).

The Company is charged administrative fees of €25,000 per annum (2018: €25,000) by the Parent. This amount is included in administrative expenses on the statement of comprehensive income (loss).

At June 30, 2019 and December 31, 2018, UniCredit BA, the ultimate parent of the Company owned 62.0% (2018: 62.0%) of the outstanding hybrid subordinated securities with a book value (gross of provisions) of €155,249,176 (2018: €155,376,595). As a result, the Company incurred €697,758 (2018: €1,685,936) of related interest expense during the year of which €154,483 (2018: €276,595) is payable at period end that is ultimately due to UniCredit BA.

7. Fair value disclosure of financial instruments

The following disclosures represent the Company's best estimate of the fair value of financial instruments. As noted in Notes 4 and 5, the fair value of hybrid subordinated securities is based on current market quotations as these are exchange-traded. As discussed in Note 4, proceeds from the initial issuance of the hybrid subordinated securities were placed in a subordinated deposit with the Parent. Concurrent with the initial deposit, the Company entered into the Support Agreement discussed in Note 5 to guarantee the Company's obligations under the hybrid subordinated securities.

Collectively, the sole purpose and use of the subordinated deposit and the Support Agreement is to fund the Company's obligations under the securities, whether for the funding of future dividend payments or possible redemption amounts. Accordingly, the collective fair value of the subordinated deposit and Support Agreement will approximate the fair value of the hybrid subordinated securities.

BA-CA Finance (Cayman) Limited
Notes to Financial Statements
for the period January 1 – June 30, 2019 (unaudited)
(stated in Euro)

7. Fair value disclosure of financial instruments (continued)

As noted above, the subordinate deposits and the hybrid subordinate bonds are accounted for at fair value with the initial valuation gains / losses accounted for directly in equity and the 2018 related valuation gains / losses flowing through the P&L.

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 (as this statement is necessary for all assets and liabilities which are not included in Note 4 & Note 5).

As discussed in Note 4 and 5, the fair value measurements used above for the subordinated deposits and hybrid subordinated securities have been categorized as Level 2.

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 investment grade credit ratings.

Market risk

Market risk is the potential loss the Company may incur as a result from 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, but may be indirectly exposed to market risk through interest risk.

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 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.

BA-CA Finance (Cayman) Limited
Notes to Financial Statements
for the period January 1 – June 30, 2019 (unaudited)
(stated in Euro)

7. Fair value disclosure of financial instruments (continued)

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is not subject to foreign currency risk as all assets and liabilities are denominated in the functional currency of the Company.

8. Share capital

		2019	2018
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 2018.

10. Subsequent events

There are no subsequent events to disclose for the Company.