



*Wealth Assurance Holdings, Ltd.
British Virgin Islands*

*Report of the auditor
to the Board of Directors
on the financial statements 2013*



Report of the auditor
to the Board of Directors of
Wealth Assurance Holdings, Ltd.
British Virgin Islands

On your instructions, we have audited the consolidated financial statements of Wealth Assurance Holdings, Ltd. ("the Company"), which comprise the consolidated balance sheet, consolidated income statement and notes to the consolidated financial statements, for the period ended 31 December 2013.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the accounting policies set forth in the notes to the consolidated financial statements. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance 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, the auditor considers the internal control system relevant to the entity's preparation 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 existence and effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, 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.



Opinion

In our opinion, the financial statements for the period ended 31 December 2013 comply with the accounting policies set forth in the notes to the consolidated financial statements.

PricewaterhouseCoopers AG

A handwritten signature in blue ink, appearing to be 'S', with a red circular stamp containing a white cross to its right.

Enrico Strozzi

A handwritten signature in blue ink, appearing to be 'Konopka', with a red circular stamp containing a white cross to its right.

Christian Konopka

Zürich, 27 June 2014

Enclosure:

- Consolidated financial statements (consolidated balance sheet, consolidated income statement and notes to the consolidated financial statements)



Wealth Assurance Holdings, Ltd.

Consolidated Financial Statement

For the Period Ended December 31, 2013

WEALTH ASSURANCE HOLDINGS, LTD.

CONSOLIDATED BALANCE SHEET

AS OF DECEMBER 31, 2013

ASSETS

CURRENT ASSETS

CASH IN BANK	\$	18,883,503.00
CERTIFICATE OF DEPOSIT		74,757.00
ACCOUNTS RECEIVABLE		1,942,437.00
OTHER RECEIVABLES		75,178.00
STOCK SUBSCRIPTION RECEIVABLE		<u>2,501,100.00</u>

TOTAL CURRENT ASSETS \$ 23,476,975.00

FIXED ASSETS

FURNITURE & FIXTURES	\$	<u>25,535.00</u>
----------------------	----	------------------

TOTAL FIXED ASSETS \$ 25,535.00

OTHER ASSETS

ACCRUED INTEREST AND RENT	\$	12,830.00
OTHER ACCRUALS AND DEFERRALS		357,877.00
CAPITAL INVESTMENT - LIFE INS. POLICIES		1,357,889,349.00
BARGAIN PURCHASE GAIN ON INVESTMENT		<u>54,347,762.00</u>

TOTAL OTHER ASSETS \$ 1,412,607,818.00

TOTAL ASSETS \$ 1,436,110,328.00

WEALTH ASSURANCE HOLDINGS, LTD.

CONSOLIDATED BALANCE SHEET

AS OF DECEMBER 31, 2013

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

ACCOUNTS & LOANS PAYABLE	\$	65,221,757.00
ACCRUED EXPENSES		7,861,716.00
SOCIAL SECURITY LIABILITY		18,608.00
TAX LIABILITY		94,242.00
TAX PROVISIONS		1,344.00
OTHER PROVISIONS		1,193,423.00
ACCRUALS AND DEFERRALS		233,796.00
ACTUARIAL RESERVE		<u>365,881.00</u>

TOTAL CURRENT LIABILITIES \$ 74,990,767.00

LONG-TERM LIABILITIES

INVESTMENT RISK ON LIFE INSURANCE	\$	<u>1,293,613,503.00</u>
-----------------------------------	----	-------------------------

TOTAL LONG-TERM LIABILITIES \$ 1,293,613,503.00

STOCKHOLDERS' EQUITY

COMMON STOCK - CLASS A	\$	1,100.00
COMMON STOCK - CLASS B		2,500.00
ADDITIONAL PAID IN CAPITAL		14,997,500.00
EQUITY NET OF INTERCOMPANY TRANSACTIONS		(1,769,304.00)
NONCONTROLLING INTEREST IN SUBSIDIARIES		(7,337,181.00)
CURRENT NET INCOME (LOSS)		<u>61,611,443.00</u>

TOTAL STOCKHOLDERS' EQUITY \$ 67,506,058.00

TOTAL LIABILITIES & STOCKHOLDERS' EQUITY \$ 1,436,110,328.00

WEALTH ASSURANCE HOLDINGS, LTD.

CONSOLIDATED INCOME STATEMENT

	7 MONTHS ENDED	
	<u>DECEMBER 31, 2013</u>	
INCOME		
BARGAIN PURCHASE GAIN ON INVESTMENT	\$	<u>61,684,943.00</u>
TOTAL INCOME	\$	61,684,943.00
OPERATING EXPENSES		
BSX LISTING SPONSOR FEES	\$	9,000.00
LEGAL & AUDIT FEES		35,000.00
MISCELLANEOUS FEES		200.00
RESIDENT AGENT (BVI) FEES		5,675.00
STOCK EXCHANGE FEES		7,520.00
GENERAL AND ADMINISTRATIVE FEES		<u>16,105.00</u>
TOTAL OPERATING EXPENSES		<u>73,500.00</u>
NET INCOME (LOSS)	\$	<u>61,611,443.00</u>

Wealth Assurance Holdings, Ltd.

NOTES TO 2013 CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization – Wealth Assurance Holdings, Ltd. is a financial holding company incorporated in May, 2013. In October, 2013, Wealth Assurance Holdings, Ltd. issued Class A and Class B shares for a total consideration of \$15,001,100. On December 31, Wealth Assurance Holdings, Ltd. purchased 90.1% of Wealth-Assurance AG, a Liechtenstein insurance company. \$12,428,000 was paid for the purchase of Wealth-Assurance AG. The companies are filing a consolidated financial statement. The consolidated financial statements are prepared in accordance with U.S. Generally Accepted Accounting Principles.

Company Activity and Operating Cycle – The companies operate on a calendar year cycle. Wealth-Assurance AG is licensed as a life insurance company in Liechtenstein and operates as such.

Valuation Methods – Third party capital investments are posted at current value. In the case of listed investments, this is the stock market value on the consolidated balance sheet date, or if not a trading day, the preceding trading day. Unlisted investments are posted at the last known disclosed value. These items are balanced on the liability side by provisions for third party investment risk. These are valued using the same principles.

Depreciation – Depreciation is computed using the straight line method over a 5 year period for financial reporting purposes.

Income Taxes – The company has incurred no income tax liability for 2013.

NOTE 2 – OTHER RECEIVABLES/ACCRUALS AND DEFERRALS.

Other Receivables represent unsettled fees from insurance contracts. Other accruals and Deferrals represent items paid in advance for 2014 expenses.

NOTE 3 – CAPITAL INVESTMENT LIFE INSURANCE POLICIES

The capital investment in life insurance policies contains policies with a non-liquid value of \$331,431,000.

NOTE 4 – EQUIPMENT AND VEHICLES

Equipment and vehicles are stated at cost less accumulated depreciation. Depreciation expense for the 12 months ended December 31, 2013 was \$21,888.

Equipment and vehicles consists of the following at December 31, 2013:

Office Building and Furniture	\$	111,410
Accumulated depreciation		(85,875)
Office Building and Furniture, net	\$	<u>25,535</u>

NOTE 5 – BUSINESS COMBINATIONS AND BARGAIN PURCHASE GAIN ON INVESTMENT

Business Combinations: Business combinations are accounted for under the acquisition method of accounting in accordance with FASB ASC 805, Business Combinations. Under the acquisition method the acquiring entity in a business combination recognizes 100 percent of the acquired assets and assumed liabilities, regardless of the percentage owned, at their estimated fair values as of the date of acquisition. Any excess of the purchase price over the fair value of net assets and other identifiable intangible assets acquired is recorded as goodwill. To the extent the fair value of net assets acquired, including other identifiable assets, exceed the purchase price, a bargain purchase gain is recognized. Assets acquired and liabilities assumed from contingencies must also be recognized at fair value, if the fair value can be determined during the measurement period. Results of operations of an acquired business are included in the statement of earnings from the date of acquisition. Acquisition-related costs, including conversion and restructuring charges, are expensed as incurred. The Company applied this guidance to the Wealth-Assurance AG (“WAAG”) acquisition that was consummated in 2013.

Goodwill and Other Intangible Assets: Goodwill is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any non-controlling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but are periodically evaluated for impairment at the reporting unit level at least annually. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values.

In accordance with ASU 2011-08 *Intangibles—Goodwill and Other* (Topic 350): the Company makes a qualitative assessment of whether it is more likely than not that its fair value is less than its carrying amount before applying the two-step goodwill impairment test. If we conclude that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, we do not perform the two-step impairment test. Goodwill is also tested for impairment on an interim basis if circumstances change or an event occurs between annual tests that would more likely than not reduce the fair value of the reporting unit below its carrying amount. The qualitative assessment includes adverse events or circumstances identified that could negatively affect the reporting units’ fair value as well as positive and mitigating events. Such indicators may include, among others: a significant change in legal factors or in the general business climate; significant change in the Company’s stock price and market capitalization; unanticipated competition; and an action or assessment by a regulator.

Effective December 31, 2013 the Company acquired WAAG, which resulted in a \$61.6 million bargain purchase gain. No goodwill impairment charges were required for the year ended December 31, 2013. Goodwill is the only intangible asset with an indefinite life on the consolidated statements of financial condition.

Wealth-Assurance AG Acquisition: Effective December 31, 2013, the Company acquired Wealth-Assurance AG (WAAG) pursuant to the terms of (a) the share sale and purchase agreement, dated 31 May 2013, between the Company and Res Anstalt, (b) the addendum agreement dated as of 28 October 2013 between the Company, Res Anstalt and Aloyse Steichen, and (c) the letter agreement dated November 2013 between the Company and Deutscher Ring Krankenversicherungsverein AG (“DRK”) (collectively, the “Purchase Agreements”). The acquisition was accomplished by the Company’s purchase of 58.6% of WAAG’s stock directly, in addition to the purchase of 100% of Wealth-Assurance Betellungs AG which in turn owns 31.4% of WAAG, resulting in the Company owning, directly and

Wealth Assurance Holdings, Ltd.

indirectly, 90% of WAAG. Under the terms of the Purchase Agreements, part of the consideration also was used to increase the capital of WAAG, and did not go to the sellers.

The acquired assets and liabilities were recorded at fair value at the date of acquisition and were reflected in the December 31, 2013 consolidated financial statements as such.

In accordance with GAAP guidance for business combinations, the Company recorded \$61.6 million of bargain purchase gain. Due to circumstances that WAAG faced at the time the acquisition was negotiated, the terms negotiated included a purchase price that was \$61.6 million lower than Wealth-Assurance AG's Market Consistent Embedded Value ("MCEV") as of the date of acquisition. As a result, a bargain purchase gain of \$61.6 million resulted at the time of purchase. The following table summarizes the fair value of the total consideration transferred as a part of the WAAG acquisition as well as the fair value of identifiable assets acquired and liabilities assumed as of the effective date of the transaction.

Consideration

Consideration Paid in 2013	\$ 8,254,000.00
Balance payable to Seller on purchase of WAAG (Paid in 2014)	4,174,000.00
Fair value of total consideration transferred	<u>12,428,000.00</u>

Recognised Amounts of Identifiable Assets Acquired and Liabilities Assumed

WAAG total assets acquired	1,375,037,860.41
WAAG total liabilities assumed	(1,368,553,164.88)
MCEV of WAAG	66,387,013.00
Less shareholders' equity	(6,484,695.52)
Cash held at WAAG pending capital increase	7,619,486.84
Foreign Exchange Adjustment	106,443.16
Total Identifiable Net Assets Acquired	<u>74,112,943.00</u>
Bargain Purchase Gain	\$ 61,684,943.00

Revenue and net income included in consolidated net income related to WAAG from date of acquisition (December 31, 2013) through December 31, 2013 was \$0.00.

NOTE 6 – CURRENT LIABILITIES

Actuarial reserves represent the provisions for the processing of insurance claims. Other provisions are generally provisions for reinsurance, legal advice, auditing of the annual financial statements, and for advance payment of service contracts.

NOTE 7 – CONVERSION OF FOREIGN CURRENCIES

The financial statements of Wealth-Assurance AG were represented in CHF. All currency conversions were calculated at a rate of CHF 1.00 = USD 1.1197