Prepared by Deloitte.
Strictly privileged and confidential

Report to the
High Court of Barbados

CLICO International Life Insurance Limited (Under Judicial Management)

Judicial Manager's Final Recommendations

June 14, 2013

1. BACKGROUND

1.1 Appointment of the Judicial Manager in Barbados

1.1.1 On April 14, 2011, the Supreme Court of Barbados (the "High Court") appointed Deloitte Consulting Ltd. ("Deloitte") acting through Messrs. Oliver Jordan and Patrick Toppin as Judicial Manager of CLICO International Life Insurance Limited (the "Company" or "CIL") pursuant to Section 57 of the Insurance Act of Barbados.

1.1.2 On April 29, 2011 the High Court provided further directions to the Judicial Manager (the "Expanded Order").

1.2 Previous Reports

1.2.1 The Expanded Order of April 29, 2011 stipulated that the Judicial Manager should file an interim report to the High Court within 30 days of that date.

1.2.2 The Interim Report was filed with the High Court on May 27, 2011.

1.2.3 The Judicial Manager was invited before the High Court on June 22, 2011 to present the Interim Report. Justice Chandler accepted the findings of the Judicial Manager in respect of its activities from the date of appointment to May 27, 2011.

1.2.4 On July 28, 2011, pursuant to the Expanded Order of April 29, 2011, the Judicial Manager filed its report with the High Court ("the July 28 report") and set out the courses of action for CIL which were most advantageous to the general interests of the policyholders of the Company.

1.2.5 On September 14, 2011, the Judicial Manager submitted to the High Court an addendum to the July 28, 2011 report.

1.3 Purpose of this report

1.3.1 This report (the "Report") serves to outline the final recommendation by the Judicial Manager for the approach for the restructuring of CIL and to seek Court approval for the recommendation.

1.3.2 For the avoidance of doubt, all duties and liabilities to third parties are specifically disclaimed.

1.4 Sources of information

1.4.1 Specific details of the sources of information used and relied upon in this Report are given where referred to in this Report and in the accompanying appendices.

1.5 Limitation

1.5.1 In completing its work, the Judicial Manager has relied on the integrity of the information and documents supplied by the management of the Company and its related companies. In addition, the Judicial Manager has commissioned certain third party valuations and assessments and these are referenced throughout the report and the appendices attached. Although the Judicial Manager has sought to cross check information from different sources to confirm its accuracy, it has not independently verified all of the information and documentation upon which it has relied when preparing this Report. The financial information in this Report has not been subject to audit.

1.5.2 The Judicial Manager believes all of the information in this Report to be true and accurate, however it reserves the right to amend this Report should additional information come to light.

1.6 Currency

1.6.1 The business of the Company is conducted in Bds$ and EC$ depending on the jurisdiction of operation. The Company's financial statements are presented in Bds$ and the currency of the Report is presented in Bds$ unless stated otherwise. It should be noted that where appropriate amounts recorded in EC$ have been converted to Bds$ for comparison purposes and consistency. The exchange rate between Bds$ and EC$ used in the report is 1.35.

2. ACTIVITIES UNDERTAKEN BY THE JUDICIAL MANAGER

2.1 Initial restructuring efforts (July 2011 – May 2012)

2.1.1 Pursuant to clause 5 of the Expanded Order, on July 28, 2011 the Judicial Manager filed a restructuring plan with the High Court. It was noted in that plan that the valuation of assets at that time indicated that CIL was chronically short of the necessary assets required to cover its policyholder liabilities. It was also recognised that CL Financial, the ultimate shareholder of the Company was unlikely to provide the necessary injection of funds required to correct the deficit position. The Judicial Manager concluded that in the circumstances the best option available to protect the interests of all of the policyholders was for CIL to be restructured.

2.1.2 In the period subsequent to filing the restructuring plan the Judicial Manager has made amendments to various elements of the initial restructuring plan, and reviewed alternate options with a view of finalising a plan including but not limited to four (4) additional options which were developed by the CIL Advisory Committee[1] and engaging in various sessions with the policyholders, regulators and the governments of Barbados and the territories of the Eastern Caribbean ("hereinafter the stakeholders").

2.1.3 The Judicial Manager was unable to secure confirmation of any direct funding from regional governments in respect of the four (4) restructuring options.

2.1.4 In light of the concerns of policyholders and regulators, and in the absence of confirmation of any available funding, in December 2011 the Judicial Manager sought to identify a suitable investor that could demonstrate the depth of management and financial capacity necessary to provide greater confidence to policyholders and regulators as it relates to the viability of any new entity which may be envisaged.

2.1.5 During the period January 1 to May 31, 2012 the Judicial Manager undertook an extensive search process within the Caribbean region and internationally for suitable investors for CIL. As a result the Judicial Manager received non-binding offers from two (2) suitable investors ("the potential investors") for the traditional business (Individual Life, Group Life, Pensions and Annuities).

2.1.6 There was no investor interest in CIL's Executive Flexible Premium Annuities (EFPA) product as currently structured. However the potential investors confirmed their willingness to accept the EFPAs as part of a purchase transaction if these products were converted into long term annuities and were also backed by sufficient and appropriate assets.

2.1.7 To facilitate the sale of the traditional business a number of challenges would have to be addressed:

[1] The terms of reference of the CIL Advisory Committee included providing advice to all the Judicial Managers on the proposed restructuring options.

- The majority of CIL's assets do not quality for inclusion in the various insurance statutory funds in the region; and
- The bulk of CIL's assets are located in Barbados and St. Lucia. To facilitate the sale of policyholder liabilities located in the other Eastern Caribbean jurisdictions where CIL does not hold significant assets, eligible assets (for the purpose of statutory fund provisions) would have to be transferred from Barbados and St. Lucia to these jurisdictions.

2.2 Consultations with policyholders, regulators and regional governments

Over the course of the judicial management process, the Judicial Manager has engaged in extensive discussions/meetings with the stakeholders of CIL and has been able to assess their views on a variety of issues including but not limited to:

(i) The possible adverse impact which may result if the existing CLICO brand was to be associated with any new or restructured entity. Therefore the Judicial Manager has determined that any new entity created out of the restructuring plan must have an effective corporate governance structure, as well as a new management to have policyholders' and regulators' support and confidence in it; and

(ii) For regulators to have confidence in the final plan, it must take into account the unique circumstances of each jurisdiction's legislation and the requirements for approval. Therefore the Judicial Manager has and will continue to engage the regulators across the region.

2.3 Restructuring plan of June 2012

2.3.1 In June 2012 the Judicial Manager developed an approach to facilitate the transfer of CIL's insurance business to a third party investor, as well as the partial settlement and restructuring of its EFPA portfolio. The approach envisaged transferring CIL's existing assets into a Special Purpose Vehicle ("SPV") and with necessary backing from regional governments, floating a bond estimated to range from Bds$550MM to Bds$650MM on the regional capital markets. It was noted that the successful issue of a bond by the SPV would require a sovereign guarantee which was estimated at Bds$200MM.

2.3.2 This proposal was presented at the CARICOM Council of Finance and Planning meeting in St. Lucia on June 30, 2012 and also to regional Finance Ministers on Monday July 2, 2012. Following the presentations, the Judicial Manager was advised that the proposal would be evaluated by the Eastern Caribbean Currency Union ("ECCU") Core Technical Committee ("Core Committee") as well as by the Barbados and Eastern Caribbean regulators.

2.3.3 The Judicial Manager subsequently abandoned this plan due to limited market appetite for the sub-investment grade bond and the absence of firm confirmation from regional governments that sovereign guarantees would be provided.

2.4 Judicial Manager Update to the Court – October 2012

2.4.1 On October 26, 2012 the Judicial Manager presented an update to the High Court outlining its plans for the restructuring of the Company which is a write-down of the policyholder liabilities to current assets and restructuring the Company to sell to an existing insurance company.

The key elements of the write-down were that:

- In the absence of confirmed funding from regional governments, all policyholder liabilities (Traditional and EFPAs) will be written down to current asset values. All policyholders (traditional and EFPAs) would have their liability of $837MM written down to $441MM representing a loss of approximately $400MM ("the loss");
- Any loss experienced as a result of the write down would be applied equitably across all policyholders, collectively ("the restructured policyholders' liabilities"). The restructured traditional business would have total liability of $177MM and the EFPA would have total liability $264MM;
- The EFPAs would be converted into long-term annuities;
- The restructured policyholder liabilities and all CIL assets would be transferred to a new company ("NEWCO");
- CIL will enter into an agreement for the transfer of Clico Holdings Barbados Limited("CHBL")'s assets into NEWCO; and
- NEWCO would then be offered for sale to third party insurance entities subject to regulatory and Court approval;

2.4.2 It was further noted that prior to presenting a final scheme for approval by the High Court, the Judicial Manager would engage in consultations with the ECCU and Barbados governments in respect of other funding options which could enhance recovery for CIL's policyholders.

2.4.3 In December 2012 the Judicial Manager attended a meeting involving the Prime Ministers of Barbados, St. Vincent and Antigua along with several regulators and government officials from Barbados and the ECCU. During that meeting it was agreed that a working group made up of representatives from the Barbados and the ECCU governments would work closely with the Judicial Manager's representatives to develop a CIL resolution plan consistent with certain principles and to set out what each Government in the region would have to contribute to make the plan successful. The principles tabled at this meeting were as follows:

- That no individual country should use the assets in that country to settle its own policyholder liabilities at the expense of policyholders in other countries. i.e. The assets of CIL should be pooled for the benefit of all policyholders;
- That efforts will be made to provide the most optimal solution for policyholders in all practical circumstances;
- That effort should be made to ensure that the failure of CIL does not become a systemic financial crisis for the region given the financial exposure of some regional banks and credit unions to CIL;
- That effort should be made as far as practical to find solutions that are fair and equitable which may involve ring-fencing parts of the CIL portfolio and applying different treatments. e.g. sale of the traditional business or special financing for pension portfolios;
- That legal action should be pursued to seek recovery from any company or individuals whose action may have contributed to the loss to CIL's policyholders.

2.4.4 The Judicial Managers have commissioned a Forensic Audit which is being conducted by Deloitte Canada. The scope of the Audit, as approved by the Court, includes a review of related party and intercompany transactions. The final report which is to be issued shortly will assist the Judicial Manager in assessing the viability of possible recovery actions for the benefit of CIL's policyholders.

2.4.5 This working group has held a number of discussions and/or meetings and the Judicial Manager has provided detailed analysis of the policyholder portfolio in each country to assist the regional governments in assessing possible funding.

3. Valuation of CIL Assets and Liabilities

3.1.1 The Judicial Manager obtained updated valuations [2]of CIL assets as at December 31, 2012. While the overall asset values have increased by $7MM, we have not included these valuations in this Report and have continued to report on the March 31, 2012 asset values since they are not materially different from the December 31, 2012 values. Moreover, the March 2012 asset values serves as the reference point for discussions and/or meetings which the Judicial Manager has held with the regulators, the ECCU and the Barbados government.

The following table sets out the estimated fair market value of CIL's assets as at March 31, 2012 by Asset Type:

Asset Type	Net book value	Fair market value
Cash and cash equivalents	43,979,471	42,936,147
Investments	40,891,393	40,891,393
Loans and advances	38,616,406	29,012,303
Investment properties	50,030,074	*33,182,424
Development property for resale	12,864,044	*11,265,431
Investment in subsidiary and associated companies	137,459,746	*81,181,750
Amounts due from related companies	394,221,588	*171,713,077
Due from agents	534,113	-
Reinsurance claims and other accounts receivable	3,088,830	627,173
Property, plant and equipment	42,839,217	*30,203,522
TOTAL	**$764,524,882**	**$441,013,220**

The Company's assets consist primarily of illiquid assets* (74% of the assets in the portfolio). Note that the Investment in associated companies, as well as Amounts due from related companies are backed by companies' whose underlying assets are also primarily consistent of real estate assets.

[2] See Appendix I for a detail analysis of the assets by Asset Type and by Territory as at December 31, 2012.

3.1.2 The following table sets out CIL assets by jurisdictions[3] as at March 31, 2012:

Territory	Net book value	Fair market value
Anguilla	1,354,651	994,466
Antigua	17,338,319	7,811,057
Barbados	571,709,169	288,109,084
Dominica	3,358,489	2,129,324
Grenada	13,503,471	13,069,525
Montserrat	302,128	282,059
St. Kitts	18,693,074	13,040,193
St. Lucia	123,524,708	102,832,497
St. Vincent	14,740,875	12,745,017
TOTAL	**$764,524,882**	**$441,013,220**

As the Judicial Manager has outlined in previous reports, the bulk of the Company's assets are located in Barbados (65%) and St. Lucia (23%).

[3] See Appendix I for a detail analysis of the assets by Asset Type and by Territory as at December 31, 2012.

3.1.3 The table[4] below sets out the estimated actuarial liabilities of CIL as of March 31, 2012 (most recent date of valuation):

BDS$	Traditional Insurance Products	EFPA	EFPA	EFPA	EFPA	EFPA	EFPA	Total EFPA	Total Policyholder Liabilities
Territory	Actuarial liability	Individuals (principal only)	Individuals (accrued interest)	Gov't (principal only)	Gov't (accrued interest)	Corporations (principal only)	Corporations (accrued interest)		
Antigua	15,481,973	16,596,940	6,735,678	-	-	25,877,133	2,438,438	51,648,189	**67,130,162**
Dominica	4,517,155	11,574,684	2,750,441	15,873,235	3,911,534	15,673,903	3,527,517	53,311,314	**57,828,469**
Grenada	54,644,946	19,940,214	5,333,308	6,318,726	196,691	10,095,625	2,697,655	44,582,219	**99,227,165**
Montserrat	5,376,849	3,655,446	1,732,106	8,141,611	4,129,063	6,994,185	4,103,953	28,756,364	**34,133,213**
St Kitts	3,614,599	-	-	4,539,691	768,819	-	-	5,308,510	**8,923,109**
St Lucia	37,132,189	49,400,219	9,377,945	-	-	5,648,889	2,407,376	66,834,429	**103,966,618**
St Vincent	38,498,451	26,456,617	6,960,691	4,213,600	2,850,242	12,386,659	5,750,239	58,618,048	**97,116,499**
Anguilla	74,866	-	-	-	-	3,080,425	1,059,048	4,139,473	**4,214,339**
EC Total	**159,341,028**	**127,624,120**	**32,890,169**	**39,086,863**	**11,856,349**	**79,756,819**	**21,984,226**	**313,198,546**	**472,539,574**
Barbados	**176,366,924**	**116,795,002**	**24,486,292**	**-**	**-**	**38,984,580**	**8,262,700**	**188,528,574**	**364,895,498**
Summary	**335,707,952**	**244,419,122**	**57,376,461**	**39,086,863**	**11,856,349**	**118,741,399**	**30,246,926**	**501,727,120**	**837,435,072**

[4] The breakdown included in this table serves to provide support for the details included in the proposal set out in the Government of Barbados Proposal in Section 4 as well as to provide an understanding of the total policyholder liabilities by Territory.

4. Barbados Government Proposal

4.1.1 Based on recent discussions with the Ministry of Finance and the Central Bank of Barbados, the Judicial Manager has recently received a restructuring proposal for CIL from the Government of Barbados. The objective of the proposal is to achieve a solution which does not involve any loss of principal amount for any individual policyholder (Traditional business or EFPA) in Barbados or the ECCU. Under the proposal, traditional policies and the principal balance of the individual EFPAs (converted into 10 year annuities ("the restructured individual EFPAs") will be transferred to NEWCO which will then be offered for sale to an investor insurance company.

4.1.2 The key elements of the proposal are as follows:

a) **Establish NEWCO to hold CIL's portfolio of traditional insurance business and the restructured individual EFPAs:**

- Actuarial value of the portfolio of traditional business in Barbados of $176MM
- Actuarial value of the portfolio of traditional business in the ECCU of $160MM
- Present value of the restructured individual EFPAs in Barbados totalling $99MM
- Present value of the restructured individual EFPAs in the ECCU totalling $107MM

Total value of the policyholder liabilities transferred to NEWCO will be $542MM

b) **Establish two (2) Property Trusts each holding all of CIL and CHBL real estate assets located in the ECCU and in Barbados, respectively.**

- Total current value of CIL/CHBL real estate assets is approximately $325MM (CIL's non-real estate assets of approximately $115MM would be transferred to NEWCO);
- Barbados Property Trust to hold assets with current value of approximately $230MM;
- ECCU Property Trust to hold assets with current value of approximately $95MM; and
- Trustees for each Property Trust will be appointed by the relevant Governments to represent the interest of the various blocks of shareholders and will in turn appoint professional managers to manage the affairs of the Property Trusts with the objective of enhancing the value of the assets over time.

c) Corporate and Government EFPA policyholders to receive shares in the two (2) Property Trusts based on the principal balance outstanding of their EFPAs:

- Corporate EFPA principal balance of $118MM
- Government EFPA principal balance of $39MM

d) The shares to be provided to the Corporate and Government EFPAs would be backed by a zero coupon bond of approximately $142MM issued by the Government of Barbados. The current asset values exceed the traditional business and the individual EFPAs by $15MM and will go towards the Corporate and EFPA principal balance in the Property Trust.

e) The Barbados Property Trust and the ECCU Property Trusts issue $215MM and $95MM respectively in interest bearing bonds guaranteed by the Government of Barbados and the ECCU Governments respectively. These bonds would be available for an investor who acquires the portfolio of NEWCO. Moreover, as government guaranteed bonds they would qualify as eligible assets for purposes of the insurance statutory funds. On the sale of any assets of the two (2) Property Trusts, the bonds may be retired and replaced in the statutory fund by other eligible assets. Any remaining value will accrue for the benefit of the common shareholders in the Property Trusts (formerly Corporate EFPAs and Government EFPAs).

f) The Barbados Government will also directly issue a bond in the amount of $150MM which will be used to provide eligible assets for the ECCU policies in NEWCO that are not covered by the ECCU Property Trust Bond ($117MM), and to cover the estimated cost of implementing this restructuring plan (such as repayment of secured creditors, unpaid amounts to policyholders and management fees ($33MM).

4.1.3 The following table summarises the elements of the Government of Barbados' plan as outlined above:

	Barbados	ECCU	Total
Traditional insurance policies in NEWCO	$176MM	$160MM	$336MM
Principal balance of Individual EFPAs converted to 10 year annuities and established in NEWCO	$99MM	$107MM	$206MM
Total policyholder liabilities/Eligible Assets required	**$275MM**	**$267MM**	**$542MM**
Provided by non-real estate assets currently held by CIL	$60MM	$55MM	$115MM
Provided by Bonds issued by Barbados Property Trust	$215MM	-	$215MM
Provided by Bonds issued by the ECCU Property Trust	-	$95MM	$95MM
Interest bearing bonds provided directly by the Government of Barbados	-	$117MM	$117MM

It is recognised that the above proposal by the Government of Barbados will also require approval of the ECCU Governments, regulators and Judicial Managers given the regional nature of CIL.

5. Formal support of the Government of Barbados and the ECCU –Funding and Sovereign guarantee

- As of the date of filing of this report the Judicial Manager had not received confirmation by the Government of Barbados for its proposal as outlined in Section 4 above. The key benefit of this proposal - if confirmed - is that it avoids a write-down of policyholder liabilities to current value of assets of the Company.
- If written confirmation is received subsequent to the date of filing of this Report an Addendum will be prepared by the Judicial Manager and presented to the Court on June 21, 2013 for its consideration and approval.
- As it stands, the Judicial Manager is proceeding with its recommendation as outlined in Section 6 below.

6. Recommendation of the Judicial Manager – Assuming no confirmed funding is available from regional governments

6.1 Rationale for a write-down of policyholder liabilities

6.1.1 It is recognised that it has been over two (2) years since CIL was petitioned into Judicial Management and during the intervening period the Judicial Manager has received indications of support at various times from regional governments for the restructuring of the Company. Given the significant exposure and potential impact for CIL's individual and corporate policyholders the Judicial Manager has sought to coordinate its efforts with regional governments.

6.1.2 In its update to the High Court in October 2012, the Judicial Manager advised that in the absence of confirmed external funding, it would revert to its initial recommendation included in the July 28, 2011 report which was to write-down the value of policyholder liabilities to total current asset value on an equitable basis. As of the date of this report, June 14, 2013, the Judicial Manager has not received formal confirmation of sovereign financial support for the restructuring of CIL. Therefore the Judicial Manager recommends to the Court that a write-down of the value of policyholder liabilities to total current value of its assets is in the best interest of all policyholders for the following reasons:

- The Judicial Manager has examined and explored several funding options with regional governments;
- It has been over two (2) years since the appointment of a Judicial Manager and continued delay in the implementation of a solution will lead to further loss of confidence and likely reduction in premium income; and
- The write-down of policyholder liabilities represents a going concern solution which will minimizes the social and economic impact on the region and maximise the returns to policyholders given the current state of the property market in the region. The same does not hold true for liquidation.

In the subsequent section of this report the Judicial Manager sets out its recommended approach to the write-down of policyholders liabilities for approval by the Court.

6.2 Recommended approach to write-down the policyholder liabilities

6.2.1 The Judicial Manager engaged the actuarial firm of Oliver Wyman to develop an equitable approach for the restructuring of CIL's policyholder liabilities on the basis that no additional funding will be available to meet the shortfall between the value of CIL's assets and its policyholder liabilities.

6.2.2 The approach developed by Oliver Wyman[5] sought to achieve the following objectives:

- Eliminate the current deficit, mitigate the risk of potential liquidity shortfalls in the short to medium term and be compliant with local regulatory requirements.

- Increase the likelihood that the business can be transferred to a replacement insurer, who would be willing to fund the solvency capital requirement. This would be achieved by developing product features that result in an acceptable risk profile (considering the available assets transferred) and an acceptable expected return on solvency required capital funded by the buyer.

- Minimize the loss to the policyholders but on a fair basis. That is, the restructuring of the benefits, division of the remaining assets and design of the new benefit features should be done on an equitable basis.

- Provide possibility for future gain: To compensate for the immediate loss in guaranteed benefit, the design should allow policyholders (or their beneficiaries) the ability to gain from future long term potential realised gains on the currently illiquid/ non-performing asset portfolio.

- As there may be some potential for future Government funding, a practical method should be developed whereby the policyholder benefits can be easily augmented in the future from a potential capital injection.

---

[5] Appendix II outlines a high level approach (Outlined by Oliver Wyman) and the work-steps for the restructuring which aims to meet each of the objectives listed in Section 6 above.

Appendix I

The following table sets out the estimated fair market value of CIL's assets as at March 31, 2012 and December 31, 2012 by Asset Type.

Asset Type	March 31, 2012 Net book value	March 31, 2012 Fair market value	December 31, 2012 Net book value	December 31, 2012 Fair market value
Cash and cash equivalents	43,979,471	42,936,147	41,179,849	41,179,849
Investments	40,891,393	40,891,393	41,973,746	41,973,746
Loans and advances	38,616,406	29,012,303	37,372,477	28,780,720
Investment properties	50,030,074	33,182,424	50,030,074	32,134,989
Development property for resale	12,864,044	11,265,431	12,864,044	13,889,331
Investment in subsidiary and associated companies	137,459,746	81,181,750	137,749,474	82,275,250
Amounts due from related companies	394,221,588	171,713,077	417,885,973	173,160,612
Due from agents	534,113	-	571,607	-
Reinsurance claims and other accounts receivable	3,088,830	627,173	4,096,338	446,653
Property, plant and equipment	42,839,217	30,203,522	42,100,638	34,449,060
TOTAL	$764,524,882	**$441,013,220**	$785,824,219	**$448,290,211**

Appendix I Cont'd

The following table sets out the estimated fair market value of CIL's assets as at March 31, 2012 and December 31, 2012 by Territory.

Territory	March 31, 2012 Net book value	March 31, 2012 Fair market value	December 31, 2012 Net book value	December 31, 2012 Fair market value
Anguilla	1,354,651	994,466	1,038,420	1,025,388
Antigua	17,338,319	7,811,057	10,987,642	13,077,785
Barbados	571,709,169	288,109,084	602,296,035	290,730,658
Dominica	3,358,489	2,129,324	3,604,672	1,875,820
Grenada	13,503,471	13,069,525	11,308,116	11,047,393
Montserrat	302,128	282,059	469,637	381,446
St. Kitts	18,693,074	13,040,193	17,200,602	12,756,158
St. Lucia	123,524,708	102,832,497	123,636,892	104,847,903
St. Vincent	14,740,875	12,745,017	15,282,203	12,547,660
TOTAL	**$764,524,882**	**$441,013,220**	**785,824,219**	**448,290,211**

Appendix II

Attached, the Executive Summary – Oliver Wyman (Proportionate approach) and the work steps for the restructuring under a write down to current asset values