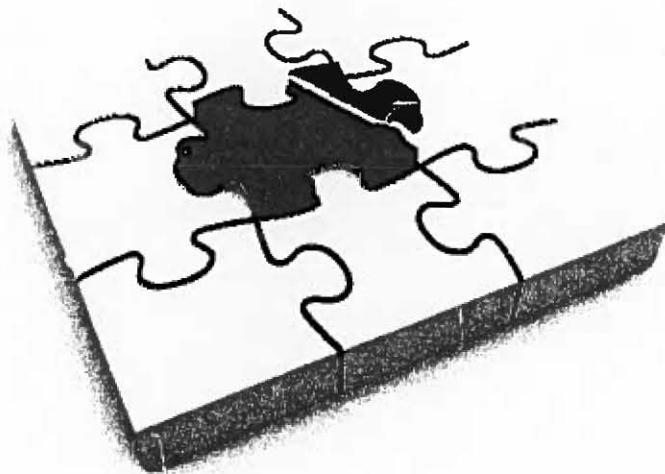


Deloitte.

**Forensic Audit of CLICO
International Life Insurance Ltd.
(under Judicial Management)**



**Report as of June 21, 2013
June 21, 2013**

Table of contents

1	Introduction and background.....	1
2	Executive summary	2
3	Scope of work.....	3
4	Detailed findings.....	5

Appendix 1 Affidavit of the Judicial Manager dated October 19, 2012 and Order of the Court dated November 5, 2012

Appendix 2 Copy of Thompson and Associates invoice #20067, dated December 30, 2008

Appendix 3 Summary of purchases of certain lots at Crystal Heights and Crystal Court developments

1 Introduction and background

On April 14, 2011 the Supreme Court of Barbados (the "Court") appointed Deloitte Consulting Ltd. as Judicial Manager ("Judicial Manager") of CLICO International Life Insurance Ltd. ("the Company" or "CIL") pursuant to section 57 of the Insurance Act of Barbados. Following this appointment, the Judicial Manager identified issues requiring forensic investigation and applied to the Court in July 2011, recommending that a forensic audit be undertaken to determine the origination and composition of CIL's intercompany balances and to identify related party transactions.

In September 2011, the Court approved the Judicial Manager's Application for a forensic audit of CIL to address these issues; the forensic audit was to be undertaken by the Forensic & Dispute Services team of Deloitte LLP in Canada ("Deloitte Canada")¹. Our first report summarized the results of the investigation as of December 5, 2011 and recommended that additional investigative work be undertaken to, in summary:

- Gather further information and documents related to intercompany balances, including certain historical balances for which no breakdown had been provided by CIL;
- Trace funds provided by CIL to other companies in the CLICO group;
- Complete the investigation of related party transactions;
- Analyze and review select electronic evidence, including a focused review of available email records, as these relate to transactions of interest; and
- Conduct interviews with representatives of CIL, Clico Holdings Barbados Ltd ("CHBL") or their related companies or third parties, as required.

By Order dated November 5, 2012 the Court approved the continuation of the forensic audit and the further scope of work outlined in the Affidavit of the Judicial Manager dated October 19, 2012. Paragraph 15 of the Affidavit outlined the intended scope of work and noted that the further investigative work was to be limited and undertaken selectively. Copies of the Affidavit and the Order are attached as Appendix 1.

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We understand that a copy of this report will be provided to the Financial Services Commission of Barbados by the Judicial Manager.

The procedures performed by Deloitte Canada in connection with this matter do not constitute a financial audit and we do not express an audit opinion on any of the information noted in this report.

This report is based on the information in our possession or provided to our firm by CIL, CHBL and their respective subsidiaries, current and former employees and others as at June 21, 2013. We reserve the right, but will be under no obligation, to update our findings for any new information that may become known to us after the date of this report.

¹ Any references in this report to "we", "our" or "us" refer to Deloitte Canada.

2 Executive summary

Our interim report as of December 5, 2011 noted that we were unable to secure all relevant documents to complete the analysis of CIL's intercompany balances. We recommended that further work be completed to secure documents, further analyze these balances and trace funds to confirm the uses to which they were put. In addition, we recommended that the investigation of related party transactions be completed.

This report sets out our additional findings related to these areas of investigation.

Intercompany balances

With respect to intercompany balances, we selected 119 transactions with a total value of over \$300mm for further review and analysis, including funds tracing, and obtained and reviewed further documentation. While we did not find all of the documentation required to further analyze all of these transactions, for those transactions with supporting documents and/or for which we completed funds tracing we did not identify any issues.

Our analysis included a review of CIL's balance receivable from CL Financial, which amounted to some \$11.5mm², a balance that was written off effective December 31, 2008 on account of the financial difficulties encountered by CL Financial in Trinidad and Tobago. We found documents, including correspondence from Mr. Lawrence Duprey, confirming that \$3.5mm of that balance receivable related to a loan in the name of Mr. Duprey, which was repaid on his behalf by CIL.

As part of our analysis, we also obtained additional information relating to the payment we previously identified of \$3.333mm apparently paid by CIL to the law firm of Thompson and Associates in January 2009. In summary, we found that:

- The Thompson and Associates invoice, purportedly for legal fees and retainers and used to make the payment by CIL was false. It was not an invoice issued by that law firm and was created solely to facilitate the payment and conceal its true nature, which was partial payment of a substantial gratuity to the benefit of Mr. Leroy Parris, the former Chairman of CIL and CHBL;
- The timing of both the creation of the invoice on December 30, 2008 and the related cheque payment on January 16, 2009 corresponded with growing concerns regarding the financial status of CL Financial and related companies in Trinidad and Tobago, which culminated in the Central Bank of Trinidad and Tobago announcing on January 30, 2009 that it was providing financial support to the CL Financial group. In particular, we found that the submission of the invoice for processing and payment occurred after meetings between the Central Bank of Trinidad and Tobago and representatives of CL Financial regarding financial support.

Related Party Transactions

We identified a considerable number of related party transactions over and above the transactions that were declared to us in response to requests we made of CIL and its subsidiaries.

We noted a substantial payment of commissions to a company controlled by Mr. Parris on May 8, 2009, shortly before the appointment of the Oversight Committee under the terms of the Memorandum of Understanding ("MOU") between the Government of Barbados and CHBL dated May 12, 2009. Under the MOU, the Oversight Committee was to oversee the financial affairs of CHBL and its regulated subsidiaries and CHBL agreed that its regulated subsidiaries (including CIL) would not make bonus or *ex gratia* payments to Directors, management or other senior officials while the MOU was in force.

We found that certain CIL executives and advisors paid less than third parties when they acquired real estate from development companies in the CIL group.³

² All amounts stated in this report are in Barbados dollars, unless otherwise stated.

3 Scope of work

The Affidavit of the Judicial Manager dated October 19, 2012 recommended the scope of our further forensic investigation be limited to:

- Further documentation and analysis of intercompany loan transactions noted in the December 5, 2011 forensic report, including tracing of loan proceeds provided by CIL, to confirm the ultimate uses of those funds;
- An examination of related party transactions and review of relevant documentation such as Board minutes and other documents to determine the approval and disclosure of these transactions and the value at which they were concluded;
- Interviews of members of the Boards of CIL, CHBL or related companies and the management of CIL to obtain further relevant information regarding related party transactions, if such interviews could be arranged.

Copies of the Affidavit of the Judicial Manager dated October 19, 2012 and the Order of the Court dated November 5, 2012 are attached at Appendix 1.

Accordingly this report does not reflect a forensic audit of all aspects of CIL's operations or all of its transactions. The scope of this work was limited; specifically, to further confirm certain intercompany assets and to investigate related party transactions, with a view to possible recovery by CIL or the Judicial Manager to the benefit of CIL's creditors, if any, within the fee scale for this work as approved by the Court.

Information Examined

In completing the work referred to in this report, we examined documents and other information provided to us by representatives of CIL, CHBL and their respective subsidiaries. These documents were similar in nature to those listed in our report dated December 5, 2011. In addition, we also examined certain witness statements and exhibits publically available as a result of the Commission of Enquiry into the failure of CL Financial et al in Trinidad and Tobago, to obtain relevant information regarding the financial difficulties encountered by CL Financial Ltd., in late 2008 and early 2009.

We obtained and reviewed the following documentation:

- Minutes of the Meetings of the Board of Directors of CIL and CHBL;
- General ledger and vendor history details provided by CHBL and the Judicial Manager for transactions examined;
- Payment voucher documents, invoices, correspondence and receipts relating to transactions examined;
- Certain bank statements, cancelled cheques and deposit slip books for transactions examined;
- Correspondence files for certain vendors including Cilco Property Development Inc. ("CPDI"), Clermont Development Inc. ("CDI"), Cilco International General Insurance ("CIIG"), Cilco Mortgage Finance Corporation ("CMFC"), Cotton Park Corporation, Todds Estates Ltd, Thompson and Associates as well as corporate and project folders;
- Certain real estate development files maintained by CPDI for the Crystal Heights, Lemon Harbour and Lem-Green developments;
- Schedule of unit holders for Crystal Court;
- Corporate Registrations, Barbados land registration documents and other public records, as required.
- Schedule of Executive Flexible Premium Annuities ("EFPA's") provided by the Judicial Manager;
- Certain EFPA documents stored in the AS400 system and obtained by the Judicial Manager.

As noted more specifically in Section 4.1 below, which relates to our further analysis of intercompany balances, we encountered some issues in securing all required documentation from CIL, CHBL or their subsidiary companies.

Electronic Evidence Reviewed

As part of our work conducted in 2011, we had asked that the Judicial Manager secure certain CIL email backup records to supplement other evidence found in the course of our work. As part of our further investigation, we forensically extracted email data from the backup records secured and performed keyword and judgmental searches on data relating to the following custodians:

- Terrence Thornhill, current President and CEO of CHBL.
- Cheryl Haynes, former Vice-President of Finance for CIL.
- Denise Mongerie-Rogers, former director of CIG and Chairman's Assistant, VP Public Relations & Advertising, CHBL.
- Laureene Kirby, Branch Administration Manager, CIL St. Vincent.
- Geoffrey Brewster, former President of CIL.
- David Clarke, Vice-President Sales, CIL.
- Shaunita Jordan, former Chief Legal Officer, CHBL.
- Trudy White, former Financial Analyst, CHBL.
- Sam Benjamin, Agency Manager and Branch Manager, CIL Antigua.
- Jacqueline Lynch, Executive Assistant.
- Jill Wason, Executive Assistant.

We found a limited number of emails relating to Mr. Parris in this data; we understand that the mailbox account relating to Mr. Parris was not retained in the email backup records we secured as the records previously containing that data had already been recycled in accordance with the company's normal record management process.

Meetings and interviews

In the course of our work we had numerous meetings with employees of CIL, CHBL and select subsidiaries and associated companies to gather further information relating to transactions of interest. We attended at the premises of certain group companies to secure additional relevant documents.

We formally interviewed the following individuals to discuss certain aspects of our investigative findings and to obtain further information:

- Terrence Thornhill;
- Shaunita Jordan;
- William Layne (former Chair of the Oversight Committee (2009/2010) and former Permanent Secretary in the Ministry of Finance); and
- Trudy White.

We also exchanged correspondence with Ms. Gale Prescod of De Novo Legal, to gather more information. We understand that De Novo Legal is the successor firm to Thompson and Associates. We made several attempts to contact Ms. Cheryl Haynes, former Vice-President of Finance for CIL, but she was unresponsive to our requests. Consequently, we do not have the benefit of her knowledge of the findings noted in this report, in particular any additional information she may have been able to provide relating to the cheque provided to Thompson and Associates, which she co-signed with Mr. Thornhill.

4 Detailed findings

4.1 Intercompany Balances

Our report as of December 5, 2011 recommended that further documentation, such as third party documents, be obtained for certain significant intercompany transactions and funds tracing be conducted to determine the ultimate uses of the funds.³

As part of our further review we selected 119 transactions from CiL's intercompany accounts with a total value of over \$300mm for further analysis and funds tracing. The transactions were selected based on initial documentation we reviewed, descriptions included in the company's accounting records, and the dollar value of the transactions.

A summary of the total value of transactions selected by entity is included in the table below:

Entity	# of Transactions	Total Debits (\$M)	Total Credits (\$M)	Gross Total (\$M)
CHBL	38	70.6	64.4	135.0
CLICO Financial Complex	2	-	0.9	0.9
Cotton Park Corporation	4	25.1	0.1	25.2
Grant Hotels Inc.	5	2.9	-	2.9
Rayside Barbados	6	32.6	-	32.6
Rayside Trinidad	13	37.7	4.4	42.1
"Short-term Investments"	43	28.3	26.0	54.3
Southdown Enterprises Inc.	4	1.4	0.1	1.5
Todds Estates	5	0.6	1.0	1.6
Wakefield Plantation	1	4.5	-	4.5
Total	119	203.8	96.9	300.7

We attended at CiL and conducted a search of CiL's head office, including the vault and warehouse locations, to identify and recover relevant documentation. In addition, we attended on site at Rayside Construction (Barbados)⁴ and CLICO Property Development Inc. ("CPDI")⁵ to review further documents and obtained additional information from Todds Estates.

Generally, the historic documentation at CiL was not well organized and as such it was difficult to find complete sets of banking records or other supporting documents. For example, no banking records were found in relation to CHBL prior to 2006.

To trace funds for the transactions selected, we reviewed available bank statements, cheque copies, and documentation to determine the subsequent use of funds provided by CiL (where appropriate). Where no third party support was identified, we considered available internal documentation to assist us in determining the nature of the transaction and the flow of funds.

³ Refer to the Deloitte report dated December 5, 2011 for additional details.

⁴ Deloitte obtained supporting documentation in relation to Rayside Barbados, Trinidad and Grenada.

⁵ Deloitte obtained supporting documentation in relation to CPDI, Cotton Park Corporation, and Clermont Developments Inc.

A summary of our findings is presented in the table below:

Description	# of Transactions	Total Debits (\$M)	Total Credits (\$M)	Gross Total (\$M)
Payee identified ⁶	45	86.5	10.9	97.4
Information to suggest payee ⁷	22	38.0	3.1	41.1
Payee unknown ⁸	23	64.2	60.9	125.1
No support ⁹	29	15.1	22.0	37.1
Total	119	203.8	96.9	300.7

In general, we noted that payments related to intercompany balances were either:

- Paid directly by CiL to a third party on behalf of another group entity; or
- Paid by CiL to another group entity as an intercompany loan; or
- Paid by one group entity to another; where the transaction was recorded in CiL's general ledger and recorded as offsetting balances due to or from related companies.

Assets Funded by CiL

Consistent with the findings in our report of December 5, 2011, our further review identified more instances where CiL funded the acquisition of assets by other group companies. For example, included in the 119 transactions selected for further review was an amount totalling \$15mm paid by CiL to Thompson and Associates on July 22, 2008, which related to a purchase of lands known as the Small Ridge development. We note that the \$15mm paid by CiL was paid on behalf of CHBL and was recorded by CiL in December 2008 as an amount receivable from CHBL. The lands in question were originally conveyed on July 24, 2008 by D.C.L. Inc., to Small Ridge Development Inc. for consideration of \$10.32mm.

We reviewed an agreement between CiL and Cofam Investments Inc. dated July 31, 2008, as well as an agreement between CHBL and Cofam Investments Inc. also dated July 31, 2008. Both agreements referenced the intention of the parties to form a company, Small Ridge Development Inc., for the purposes of developing the lands known as the Small Ridge development by subdivision of the land and the sale of lots for residential purposes. The directors of Small Ridge Development Inc. include, among others, Mr. Thornhill, Mr. Parris, Mr. Anthony Ellis and Ms. Denise Angela Mongerie-Rogers.

Mr. Thornhill has advised us that if the land remained zoned for agricultural use the value was approximately \$30,000 per acre, with a much higher value if approval for re-zoning for residential use was secured. As of the date of this report, Small Ridge Development Inc. had not yet obtained formal approval to have the land use re-zoned from agricultural to residential.

We note that the Small Ridge share certificate shows that CHBL owns 15,000,000 common shares in Small Ridge Development Inc. Mr. Thornhill agreed that CiL funded the purchase of Small Ridge and confirmed that CHBL owns the shares. He added that the intention was that the proceeds from the development would flow back to CiL, Rayside would provide infrastructure and CPDI would build the houses for the development.

⁶ Payment traced to cheque copy or bank statement.

⁷ Documentation was obtained to suggest payee; however, no cheque copy or bank statement was seen to confirm.

⁸ Documentation was obtained to support the payment; however, payee was not clear.

⁹ Of the transactions where no support was identified, 23 transactions relate to "short-term investments", 9 of which appear to be accounting adjustments. Of the transactions where no support was identified, 13 transactions related to the period prior to 2008.

Within the 119 transactions reviewed and where we could determine the payee, we identified the following:

CIL Receivable	Transaction of Interest	Date Receivable Recorded	Cheque Date of CIL funding	Description
CHBL	\$15,000,000	December 31, 2008	July 22, 2008 ¹⁰	Shares in Small Ridge Development Inc.
CHBL	\$16,235,000 ¹¹	September 28, 2005	September 22, 2005	Sam Lord's Castle (owned by Grant Hotels Inc.)
CHBL	\$3,300,000	July 31, 2005	April 26, 2005	Sam Lord's Castle (owned by Grant Hotels Inc.)
CHBL	\$1,930,000	August 25, 2005	August 25, 2005	Sam Lord's Castle (owned by Grant Hotels Inc.)
CHBL	\$318,968	November 2, 2006	August 31, 2006	Villa Nova (owned by OCILC Investments Inc.)
CHBL	\$1,700,000	December 9, 2005	December 9, 2005	Villa Nova (owned by OCILC Investments Inc.)
Rayside Construction Ltd	\$6,533,333	May 6, 2008	May 6, 2008	25% Shares in Rayside Construction Ltd.
CHBL	\$1,500,000	November 21, 2005	November 21, 2005	25% Shares in Rayside Construction Ltd.
Southdown Enterprises Inc.	\$1,230,463	July 10, 2006	July 10, 2006	Property at Worthing, Christ Church: Rendezvous Supermarket

In addition to the above, we obtained and reviewed limited supporting documentation relating to other transactions we examined, which is suggestive of other assets held by subsidiaries of CIL. One example relates to amounts due from Cotton Park Corporation to CIL for \$24,886,559, which appear to be in relation to loans for the cost of the CIL/CHBL office building according to internal documentation and accounting records.

Other items examined were in respect of a combination of expenses and also other funds possibly used to purchase assets, which have not been included in the table above.

Overall, the additional supporting documentation we obtained and reviewed relating to intercompany balances agreed to the descriptions in the accounting records and previous documentation obtained by Deloitte and no discrepancies were noted.

Payment to Thompson and Associates

Our report dated December 5, 2011 noted that our analysis of CIL intercompany balances revealed a January 16, 2009 payment to Thompson and Associates for \$3.333mm, made by CIL on behalf of CHBL. The payment was supported by an invoice purportedly from Thompson and Associates dated December 30, 2008. Other documents we reviewed showed that this payment was apparently made pursuant to a letter agreement dated December 5, 2002, which we have been unable to locate, and a May 15, 2005 agreement between CHBL, CL Financial Limited and Professional Financial Services Inc. ("PFS"), a company apparently owned and or controlled by Mr. Leroy Parris, the former Chairman and CEO of CIL and CHBL.

As of the date of our 2011 report, we found that payment was in the nature of a gratuity pursuant to the above noted agreements and was not in respect of the "Fees and Expenses" described on the Thompson and Associates invoice.

Our 2011 report noted that three of the four items described in the invoices were recorded by CIL as being receivable from CHBL, which originally recorded them as expenses categorized as "Professional

¹⁰ Payment was made by CIL via two cheques dated July 22, 2008; one for \$8,000,000 and the second for \$7,000,000.

¹¹ Subsequent to the purchase of Sam Lord's castle, there was a fire resulting in damage to the property. The \$16,235,000 included in the 119 transactions reviewed relates to the original purchase of Sam Lord's castle prior to the fire.

Fees – Legal referencing *Thompson* and other information on the invoice. Effective January 30, 2009 CHBL changed the accounting treatment to charge these items to *Professional fees – management* with the annotation *Parris gratuity part payment*. We understand that the fourth item on the invoice in the amount \$237,000 was expensed as legal fees by CIL.

We conducted further investigations into the circumstances giving rise to the invoice, the payment and the resulting benefit to Mr. Parris as part of our further work.

The Invoice

The December 30, 2008 invoice was addressed to CHBL and refers to *Fees and Expenses* relating to four different matters being an action involving Marriott Corporation, an unidentified international arbitration, litigation between Abarco Limited and Grant Hotels Limited and legal fees for construction and financing agreements between CHBL and the University of the West Indies. The invoice was signed as approved by Mr. Leroy Parris as Chairman of CHBL; the date of his approval is not noted on the invoice. A copy of the approved invoice is attached as Appendix 2.

Certain amounts noted on the invoice appear unusually large, such as the US\$900,000 retainer in respect of the Marriott matter.

In general, the invoice did not identify the specific counsel with responsibility for the matters noted, except with respect to one matter, which was described as *Retainers for watching brief for Maurice King Q.C. and Junior Counsel in the matters Abarco Limited vs. Grant Hotels Limited*. Mr. Maurice King Q.C. was also referred to in the header of the invoice as a *Consultant*. At our request, Counsel for the Judicial Manager wrote to Mr. King on January 17, 2013 seeking any further information he might be able to provide relating to this document. Mr. King replied by letter dated January 18, 2013 stating (in summary):

- He did not represent CHBL or its associated companies in the Abarco matter;
- He did not receive a retainer or any fee from CHBL or its associated companies in relation to the Abarco matter;
- He did not have any information regarding fees, retainers or other payments that Junior Counsel may (or may not) have received;
- He was not involved in either the preparation or settlement of the invoice; and
- in summary, he did not receive the \$250,000 fee referred to on the invoice.

At our request, Counsel for the Judicial Manager also wrote to the law firm, De Novo Legal on January 11, 2013 seeking information relating to the Thompson and Associates invoice. We understand that De Novo Legal is the successor firm to Thompson and Associates. In its responding letter of January 29, 2013, Ms. Gale B. Prescod of De Novo Legal noted that:

- The copy of the invoice provided by Counsel to the Judicial Manager was not consistent with the invoice format used by Thompson and Associates in December 2008 or otherwise (redacted copies of four Thompson and Associates invoices marked *proforma* and *tax* and dated in late 2008 and early 2009 enclosed with Ms. Prescod's letter appear to confirm this);
- The invoice number, 20067, was not an invoice number that was generated in the accounting program used by Thompson and Associates in December 2008;
- All invoices and letters issued by Thompson and Associates always bore the signature of the lawyer having conduct of the matter, or of an authorized person from the firm's accounts department, the address of the firm and all contact information;
- De Novo Legal was unable to locate the file number *CL1* referenced on the invoice in either the physical or electronic filing systems of Thompson and Associates;
- De Novo Legal was unable to explain why the invoice had no VAT number; and
- De Novo Legal confirmed it had no knowledge of the fees or retainers referenced on the invoice.

Electronic Evidence

As noted above, we secured and examined email data obtained relating to certain current and former employees of CiL, including Mr. Terrence Thornhill. The email data shows that Thompson and Associates invoice #20067 was emailed to Mr. Thornhill by "David Thompson" at 11.42am on December 30, 2008 using an email address thompy@caribsurf.com. Internet research and email data we reviewed show this to be an email address used by the late Mr. Thompson, formerly a partner of Thompson and Associates and, at that time, the Prime Minister of Barbados. There was no accompanying message to Mr. Thornhill in the email enclosing the invoice, such as a note explaining why the invoice was being submitted or the nature of the significant charges it referred to. This suggests that matters related to the invoice had already been discussed.

We note that the metadata associated with the electronic copy of the invoice enclosed with the email to Mr. Thornhill confirms that the invoice was created on December 30, 2008.

At the time the email was sent, Mr. Thompson was Prime Minister of Barbados, having been elected to office in January 2008. A filing made with the Barbados Corporate Affairs and Intellectual Property Office relating to Thompson and Associates noted that Mr. Thompson was "no longer the owner of the business/firm" as of May 22, 2008.

Payment of the Invoice

The email received by Mr. Thornhill was forwarded by him to Ms. Cheryl Haynes, CiL's Vice-President of Finance, on January 16, 2009, the same date as the invoice was paid. We noted that the original email containing the invoice was also forwarded by Mr. Thornhill without any explanation.

CiL cheque #00092 dated January 16, 2009 was signed by Mr. Thornhill and Ms. Haynes. The cheque was most likely provided to Thompson and Associates that same day as it was deposited to a First Caribbean Bank account #1853408 on January 16, 2009. As noted above, we were unable to interview Ms. Haynes as part of our work.

The Deposit of the Cheque

In further correspondence dated February 4, 2013 from De Novo Legal, Ms. Prescod stated that the account #1853408 to which the CiL cheque was deposited was not a bank account operated by Ms. Prescod, Ms. Onika Stewart or Mr. Amiri Dear, whose names appear on the Thompson and Associates invoice.

In the course of our review, we identified numerous other CiL cheque payments to either David Thompson or to Thompson and Associates. In addition to funds being transferred to Mr. Thompson or his firm to complete business transactions for CiL or CHBL, it appears to have been common practice for cheques in payment of compensation due to Mr. Parris or PFS to be made payable to Mr. Thompson's law firm rather than to Mr. Parris or PFS directly. From 2004 to 2007 CiL cancelled cheques and cheque requisitions we examined showed that cheques totalling over \$4mm were issued by CiL to either David Thompson or Thompson and Associates; these related primarily to annual bonus and override commissions apparently payable by CHBL to Mr. Parris's company, PFS. For approximately half of these payments, documents we examined confirmed that these payments were made to Counsel on Mr. Parris' instructions.

In the records examined, we found a First Caribbean International Bank cheque #02221 dated May 18, 2008 payable to CHBL, drawn on account #1853408, which had the title "David Thompson - Client's A/C". This is the account to which the cheque payable to Thompson and Associates was deposited, as noted above. We do not know if the records of Mr. Thompson's former law practice still exist that would permit tracing of the funds represented by the \$3.333mm payment. We note that court filings made in connection with claims Mr. Parris' company PFS has made against CHBL show this payment as being made to the benefit of PFS.

The Nature of the Payment

An agreement effective May 15, 2005 was entered into between CHBL, CL Financial and PFS which provided for CHBL retaining the management services of PFS and its principal, Mr. Parris, for a ten year term. The agreement provided for salary and other benefits and also for CHBL to pay a "gratuity" to PFS and/or Mr. Parris of US\$5mm (approximately \$10mm) on May 15, 2008 "in such manner as may be

agreed between the parties on terms as set out but amended herein as to the date of payment but in no way otherwise in a letter dated December 2, 2002 between Leroy Parris and Lawrence Duprey".

The terms of the agreement provided for full payment of the gratuity if CHBL terminated the contract, including termination by CHBL for PFS' persistent breach of the contract, grave misconduct or willful neglect. The gratuity was also to be paid in full if PFS terminated the contract with one month's notice.

The contract was signed by Mr. Parris, Mr. Duprey and Mr. Thornhill and witnessed by various counsel, including Mr. Thompson.

We found no approval of this agreement in the CHBL minutes we examined. A letter from Clico Corporate Services to Ms. Shaunita Jordan, Legal and Corporate Officer of CHBL, dated February 3, 2011 stated that the CHBL minutes "contain no record of Board approval or agreement with respect to remuneration, including payment of bonuses or gratuity for Leroy Parris/Professional Financial Services Inc." The letter also noted that there were no Board resolutions to this effect.

Following our interview of Mr. Thornhill, he provided a copy of a resolution made by certain directors of the Board of CHBL, which was dated as of May 15, 2005, being the date of the above noted contract. The resolution notes it was made by written consent in lieu of a Board meeting. With respect to a "Management Contract" the signing directors "ratified, approved and confirmed" the actions of Mr. Duprey and Mr. Thornhill with respect to the May 15, 2005 agreement with PFS. The document has signatures next to the names of Mr. Woodbine Davis, Mr. Anthony Ellis, Mr. Leslie Haynes and Mr. Vishnu Ramlogan and appears to have also been signed by Mr. Parris and the Corporate Secretary, but not Mr. Thornhill. The quality of the document copy provided is poor and to date we have been unable to confirm when the document was signed. Counsel for CHBL received a copy of this document from counsel to Mr. Parris.

Correspondence from CHBL to Mr. Parris and from Counsel to CHBL, characterize the \$3.333mm payment as part of the gratuity referred to in the May 15, 2005 contract. PFS' claim filed against CHBL in the Supreme Court of Barbados acknowledges partial receipt of the gratuity, specifically the amount of \$3.333mm, plus some additional smaller payments.

Effective December 31, 2009 the balance of the gratuity in the amount of \$6,867,000 appears to have been recorded by CHBL as an expense, namely "Professional fees – management" with the description "Professional Financial Services GRA DUE JAN31, 2009".

In light of the evidence, it appears that the invoice provided to Mr. Thornhill and approved by Mr. Parris to facilitate the payment to his Counsel was false.

Mr. Thornhill has explained that:

- At an unspecified date after May 15, 2008, Mr. Parris came forward and stated that CHBL owed him the gratuity under the terms of the May 15, 2005 contract, but CHBL did not have the capacity to pay the full amount due of \$10mm;
- Mr. Thornhill could not recall when Mr. Parris first asked for the gratuity to be paid. He explained that Mr. Parris had sole possession of the contract and the gratuity obligation was "off the books" as it had been forgotten about;
- It was agreed that one third of the gratuity would be paid, with the balance to follow at some future date;
- There was no discussion as to either the form or content of the invoice, which were determined by Mr. Thompson when he created the invoice. He sent the invoice to Mr. Thornhill as he had been involved in drafting the 2005 contract. In Mr. Thornhill's opinion, as the invoice was from an attorney it would not have been queried and would have appeared legitimate;
- There was some discussion between Mr. Thornhill and Mr. Parris, and possibly other Directors, about perhaps discussing the matter with CiL's auditors, but they did not;
- The Board did not approve the payment specifically as it was pursuant to a contract that the Board had ratified. He explained that generally, if a contract had been approved by the Board, the timing of any payments under such a contract was left to the Chairman (i.e. Mr. Parris);

- Mr. Thornhill knew the true purpose of the invoice when he received it – the invoice was made to look as if it was for professional services so that confidentiality over the payment to Mr. Parris was maintained;
- He could not recall the reason for the over two week delay in sending the invoice to Ms. Haynes for processing and payment, or any discussion with her regarding the matter; and
- Mr. Thornhill has explained that as the gratuity was payable pursuant to a valid legal agreement, he had no difficulty effecting the payment by having the invoice processed and signing the cheque to Thompson and Associates.

Timing of the Payment

We note that the creation and submission of the invoice and its payment by CIL arose very shortly before the public announcement of financial difficulties being experienced by CL Financial in Trinidad and Tobago on January 30, 2009. The timing is noteworthy as Mr. Parris was a Director of CL Financial and enjoyed a close relationship with the Executive Chairman of CL Financial, Mr. Lawrence Duprey. While Mr. Thornhill was not a Director of CL Financial, he worked closely with Mr. Parris and was the most senior finance employee at CIL, with responsibility for CIL's and CHBL's financial reporting to CL Financial.

Documents produced at the Commission of Enquiry into the failure of CL Financial et al in Trinidad and Tobago describe the chronology of events affecting the CL Financial group in late 2008 and early 2009, including the following events:

Date	Event
December 4, 2008	Date of CL Financial Board meeting.
December 8, 2008	The Group Finance Director's report to the Board of CL Financial noted "a significant portion of our remaining businesses are currently unprofitable and underperforming" as well as a "critical level of underperforming Assets". It also noted "Many Group companies continue to be under-capitalized and desperately in need of new funding to improve efficiencies and deal with day to day working capital management".
December 23, 2008	Meeting between Dr. Tewarie, a Director of CL Financial, and the Governor of the Central Bank of Trinidad and Tobago at which Dr. Tewarie referred to the financial difficulties faced by CL Financial.
January 5, 2009	The Governor of the Central Bank seeks a meeting with Mr. Duprey to discuss regulatory concerns and the impact of the financial crisis on the CL Financial group.
January 7, 2009	The Inspector of Financial Institutions and the Governor of the Central Bank of Trinidad and Tobago meet with Mr. Duprey and the CFO of CL Financial due to liquidity concerns. Various action steps agreed to.
January 13, 2009	Meeting between Mr. Duprey, his Chief Financial Advisor Mr. Ramesh, and the Central Bank to discuss possible financial assistance. At the meeting, Mr. Duprey provided a letter to Mr. Ewart Williams, Governor of the Central Bank of Trinidad and Tobago, notifying him of liquidity concerns in the CLICO group and asking to discuss possible financial assistance should market conditions worsen.
January 14 and 16, 2009	Further meetings between representatives of the Central Bank and the CL Financial group.
January 27, 2009	CL Financial Board meeting to discuss the draft Memorandum of Understanding.
January 30, 2009	Public announcement made by the Governor of the Central Bank regarding financial support for CL Financial, referencing "intense discussions over the past week" between the Ministry of Finance, the Central Bank and representatives of the CL Financial group.

In our interview of Mr. Thornhill he stated the following with respect to knowledge of CL Financial's difficulties:

- He first became aware of CL Financial's difficulties when they became public in the news media in Barbados in late January 2009;
- Similarly, CIL employees were surprised by the news at that time;
- He would have expected that as Mr. Parris was a Director of CL Financial he would have been better informed than he was, but he recalled that Mr. Parris was also "a bit surprised" – he had never confided any concerns regarding CL Financial in Mr. Thornhill;

- Mr. Thornhill was aware that there was a new Financial Institutions Act coming into force in Trinidad and Tobago, which might cause some issues for CL Financial;
- No concerns were expressed in Barbados regarding the liquidity of CL Financial - there was always a view that Mr. Duprey could raise funds for the group if he needed to -- how CL Financial did its business was not discussed with Mr. Thornhill;
- in his opinion, the implications for CIL and CHBL of a potential failure of CL Financial were severe as there would be a "run on the bank", namely CIL, which held the EFPA policies and was the substantive entity in the Barbados group;
- in his opinion, the fact that the payment was made only two weeks before CL Financial's announcement in Trinidad was a coincidence.

Mr. Thornhill's version of events suggests the following:

- He believed that the creation, approval and submission for payment of a false invoice to facilitate a significant payment from CIL to Mr. Parris' benefit (via PFS) and to conceal its true nature was an acceptable transaction;
- No consideration was given to the issues faced by CL Financial in either December 2008 or in January 2009, or the related consequences for CIL's business, because Mr. Thornhill was unaware of these issues, notwithstanding the chronology of events in Trinidad and Tobago affecting CL Financial, some of which are outlined above;
- Specifically, Mr. Parris was unaware of, or gave no consideration to, the serious issues facing CL Financial and, by extension CIL, before the payment was made, notwithstanding his role on the Board of CL Financial and the occurrence of significant events affecting CL Financial before the invoice was processed for payment and paid.

4.2 Related Party Transactions

As part of our earlier review, we identified a number of related party transactions involving current and former executives of CIL and CHBL. At the time we issued our interim report in December 2011, we had requested but not yet received additional information for certain of these transactions.

For purposes of our review, a related party transaction was defined as (i) involving either a director or officer of the company concerned or a member of his or her immediate family and (ii) not being a transaction with such a party in the normal course of business (e.g. not a payment of salary, director's fees, other compensation, expenses or similar payments made in the normal course of business).

We asked CIL and its related companies to advise us of transactions undertaken by them with related parties. CIL, CHBL, Rayside Construction, St. Lucia Distillers, Clermont Development Inc. ("CDI"), and CLICO Property Development Inc. ("CPDI") provided general descriptions of the types of related party transactions entered into. Subsequently, CDI and CPDI provided further details on related party transactions, as did CLICO Balanced Fund and CIL, as follows:

- Rent paid by CIL to Branlee Consulting, a company owned and/or controlled by Mr. Parris, relating to an employee seconded to CIL by Colonial Life in Trinidad, whose accommodation was apparently provided by Branlee Consulting;
- Sale of land and construction of a house for Mr. Parris. A March 2004 statement provided to Mr. and Mrs. Parris shows that a credit of approximately \$350,000 was applied to clear the outstanding balance of costs owing to CPDI in lieu of Mr. Parris receiving annual bonuses of \$200,000 apparently owing to him by CHBL for the years 2002 to 2003;
- Event planning services provided by a company owned by Mr. Parris' wife, Premier Event Services; and
- Shares held by Mr. Terrence Thornhill in CLICO Balanced Fund.

CLICO International General Insurance did not provide any information.

The table below summarizes amounts paid to certain related parties according to vendor history report details we obtained for the period January 1, 2003 to December 31, 2011 relating to CIL and its subsidiaries:

Entity	Amount \$
Professional Financial Services Inc./Leroy Parris	\$4,518,479
Branlee Consulting	\$2,448,807
Premier Event Services Inc.	\$290,333

Our review of vendor history reports and other documents showed that the payments to PFS/Mr. Parris generally related to override commissions, club dues, management fees and the medical expenses. We have not recalculated or otherwise confirmed the amounts of override commission compensation paid to PFS and/or Mr. Parris.

Based on our review of vendor history reports, the payments to Branlee Consulting Services inc. generally related to override commissions as well as the rent relating to an employee seconded to CIL by Colonial Life in Trinidad. We identified one cheque payment to Branlee Consulting for 2008 override commissions in the amount of \$876,683. The cheque was dated May 8, 2009 shortly before the formal appointment of the Oversight Committee on May 12, 2009. The cheque was signed by Ms. Cheryl Haynes and Ms. Jillian Wason, Mr. Parris' Executive Assistant. The terms of the Memorandum of Understanding between the Government of Barbados and CHBL, governing the appointment and role of the Oversight Committee, noted that among other responsibilities, the Oversight Committee would oversee the financial operations of CHBL and its regulated subsidiaries, including CIL. The Memorandum also noted CHBL's commitment to *"ensure that the regulated subsidiaries will not make payments to Directors, Management or other senior officials in the form of bonus payments and ex gratia payments during the period of this MOU"*. We note that the cheque to Branlee was deposited on May 18, 2009 after the Oversight Committee was appointed. In discussion with Mr. William Layne of the Oversight Committee, he noted that this payment was made at a time when the Memorandum of Understanding was under negotiation.

In addition to payments made by CIL and its subsidiaries to Premier Event Services Inc., CHBL made payments to Premier Event Services Inc. for approximately \$431,000 in the period from 2004 to March 2011¹². From information obtained from CIL and its related companies and our review of the vendor payment history, the payments to Premier Event Services Inc. relate to planning and management of functions including provision of food and drinks, entertainment, seating, lighting, etc. Events included staff Christmas parties, the 2007 CLICO awards gala, the opening ceremony for the CLICO Corporate Centre and management of a box at Kensington Oval for cricket.

During our review, we identified many additional related party transactions as described below.

Real Estate

Crystal Court

We understand that Crystal Court is a condo development built on land owned by CDI of approximately 60 acres. The total development is comprised of 44 units and is a gated community located adjacent to the Crystal Heights development described below. According to Mr. Thornhill, CDI recorded the sale of the land, CIG recorded the sale of the condo units while CPDI acted as project manager charging management fees to CIG and developing the condo units using a third party for construction. According to Ms. Dorken Greaves, CPDI maintained the units prior to the condos officially being handed over to purchasers.

We note a high number of related parties and other parties of interest who purchased properties in the Crystal Court development. Of the 44 units in the development we identified 11 purchases by related parties or advisors to CIL or CHBL.

¹² Information prior to 2004 is unavailable.

We note that certain of these related parties did not appear to pay full market value for their units when the prices paid by third parties for comparable units were taken into account, based on Barbados land registration documents we obtained. Certain related parties paid up to \$26,000 less than third parties making similar purchases of units at Crystal Court, including Mr. Parris (or his companies), a company related to Mr. Thompson, Mr. Thornhill and others.

Mr. Thornhill has confirmed that certain related parties received discounts on their purchases of Crystal Court condo units. The purchases of Crystal Court condo units by related parties are summarized in Appendix 3 along with purchases of certain condo units by third parties for purposes of comparison.

Crystal Heights

Crystal Heights is a development comprised of approximately 300 lots in St. James, Barbados. CDI owned the land and according to Ms. Dorken Greaves, CPDI constructed approximately 70% of the houses built at Crystal Heights. The last lot sold occurred in 2012 with the first lots being sold around 1997 or 1998.

With respect to the Crystal Heights development, certain related parties received price reductions. For example, we reviewed a letter for one senior CHBL employee that included a handwritten notation that Mr. Parris' "ok \$3 reduction". This reduction in the price per square foot resulted in the employee paying approximately \$25,000 less for the purchase of a lot in the Crystal Heights development. The individual in question confirmed that this was authorized by Mr. Parris. The purchases of Crystal Heights lots by related parties is summarized in Appendix 3.

We found no record of approvals of these price reductions in the Board minutes, but we note that overall the total reductions were not significant to CIL or its related companies.

Lemon Arbour and Lem-Green

There were several properties purchased by relatives of Mr. Parris at the Lemon Arbour and Lem-Green developments. We were not able to secure the documents required to determine if these were transacted at market value. The table below summarizes purchases of lots by relatives of Mr. Parris:

Individual	Development	Lot numbers(s)	Consideration
Anne Leacock (Leroy Parris' daughter)	Lem-Green	58, 59, 60 ¹³	\$384,329.54
Anne Leacock (Leroy Parris' daughter)	Lem-Green	42	\$80,844.74 ¹⁴
Dennis Leacock (Leroy Parris' father-in-law)	Lemon Arbour	2	\$172,203.30 ¹⁵
Waple Parris (Leroy Parris' sister)	Lemon Arbour	13	\$204,260.35 ¹⁵

Loans/mortgages

During the course of our review, we noted loan transactions involving related parties, of which the following were noteworthy:

- Documents we reviewed stated that in 2004 an outstanding loan balance payable of \$3.5mm in the name of Mr. Duprey was repaid using a CIL term deposit. This transaction was accounted for as an increase in the intercompany balance due to CIL from CL Financial Limited, increasing the balance receivable to approximately \$11.5mm. The transaction and the related accounting treatment were confirmed by a letter signed by Mr. Duprey dated September 5, 2006. Due to the financial difficulties experienced by CL Financial, CIL's balance receivable from CL Financial of \$11.5mm, including the \$3.5mm noted above, was written off effective December 2008;

¹³ We reviewed correspondence indicating that Ms. Leacock may have also purchased lot 28 of the Lem-Green development, however we are unable to confirm this based on the available documentation.

¹⁴ Consideration for lot 42 is according to a reservation deposit schedule for the development provided by Ms. Dorken Greaves.

¹⁵ Consideration is for the purchase of the lot and construction of a house.

- We note that other related parties had mortgages with CMFC to finance their purchase of various properties. The available documents we reviewed did not allow us to determine if the mortgages arranged were transacted under market terms or not.

EFPAs

- We also reviewed available documents relating to Executive Flexible Premium Annuities ("EFPAs") purchased by certain related parties including EFPA's in the names of Mr. Terrence Thornhill, Mr. Geoffrey Brewster, Mr. Leroy Parris and Mrs. Faye Wharton-Parris totaling approximately \$3.4 million (excluding interest);
- We noted that the source of funds for Mr. Parris' active EFPAs (including EFPAs held by his company Branlee Consulting) were predominantly cheques issued by CIL; indications on the declarations of the source of funds described the source as commissions. As noted above, we have not verified the value of any commissions or other compensation earned and paid to either Mr. Parris or his companies.

In summary, we identified a considerable number of related party transactions over and above those declared to us by CIL and its subsidiaries. In particular, we found that certain of CIL's executives and senior advisors appear to have paid less than third parties to acquire real estate from development companies in the group. We also found a significant loan payable by Mr. Duprey that was repaid by CIL on his behalf and a substantial payment to Branlee Consulting immediately prior to the appointment of the Oversight Committee, which may have precluded such a payment.