BRITISH AMERICAN INSURANCE

A member of the CL FINANCIAL GROUP

Letter to policyholders and creditors of British-American Insurance Company Limited ("BAICO" or the "Company") in the Eastern Caribbean

As a policyholder or creditor of BAICO, I am writing to provide you with an update on the status of the Judicial Management, together with the progress that has been made in finding a solution to BAICO's severe financial difficulties. Over the past two years, the Eastern Caribbean Currency Union ("EC") Governments have provided regular updates regarding progress on these issues.

On 8 September 2009 British-American Insurance Company Limited ("BAICO" or "the Company") was placed under Judicial Management in the Bahamas and John M. Lopez of KPMG in the Bahamas was appointed the Judicial Manager ("JM") of the Company.

BAICO is incorporated in the Bahamas, although it did not write business or issue policies in the Bahamas. All of BAICO's business in the EC was conducted through a branch network. This means that BAICO did not have separately incorporated companies in each EC territory; instead these branches were offices that were part of BAICO in the Bahamas.

The appointment of the Bahamas JM was preceded by the appointment of a Court appointed JM, Agent or Administrator (collectively "the EC JMs") over each of the BAICO branches located in the EC. All of the EC JMs have been working in close coordination to agree the most effective strategy for dealing with BAICO.

1 Role of the Judicial Manager

The role of a JM is to assume complete management control of the Company, to make an assessment of its financial position and to report to Court with recommendations. In performing their roles, the JMs were required to determine the Company's liabilities and to identify and protect all of its assets in each of the jurisdictions in which the Company operated.

All of the appointed EC JMs are working together with BAICO's stakeholders, including the EC Governments, in an attempt to implement a solution that will allow BAICO to maximise the returns to its policyholders. The restructuring plan comprises a combination of re-organisation of the Company's business and the sale of certain businesses and subsidiaries across 19 separate jurisdictions.

2 The financial position of BAICO's EC businesses

Following the appointment of the various EC JMs across BAICO's businesses, a detailed assessment of the Company's financial position was undertaken which indicated that the Company's liabilities far exceeded its assets.

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The various EC JMs reported that BAICO's EC Branches were significantly insolvent with policyholder liabilities and investment contracts of over EC$1 billion and nominal assets with a realisable value of approximately EC$200 million. BAICO's EC Branches are therefore estimated to have a combined deficit to policyholders of approximately EC$800 million. Furthermore, the EC JMs estimated that under a liquidation scenario (i.e. without a restructuring solution and additional funding from the EC Governments and other sources) BAICO's EC policyholders could be expected to receive substantially less than 15% of the value of their policies from a liquidation dividend.

The scale of BAICO's insolvency severely restricted the range of restructuring options available to the EC JMs. In particular, the EC JMs had almost no free cash with which to cover the expenses of BAICO's EC branches given that BAICO's remaining assets were held in the form of real estate and highly illiquid financial instruments.

3 Actions taken by the Bahamas JM to date in respect of BAICO's non-EC branches

At the date of appointment of the EC JMs, BAICO's core business was broadly split between various non-EC Branches and subsidiaries ("the Outer Branches"), and BAICO's EC Branches.

BAICO operated in 19 separate jurisdictions and this has created complex issues in the implementation of a restructuring plan for BAICO's stakeholders. At the same time, BAICO's key management operations, including its accounting systems, were located in Trinidad & Tobago.

Since the appointment of the Bahamas JM, and Court Appointees over the Outer Branches, significant progress has been made in restructuring the Outer Branches.

The restructuring of the Outer Branches has resulted in the sale (or the agreement to sell) of the Cayman, TCI, Curacao, and Aruba branches and subsidiaries. At the same time, the Bahamas has reached an agreement with the provisional liquidator of BAICO's Bermuda branch that will allow the Bermuda branch to complete a Scheme of Arrangement for its Bermudian policyholders. The restructuring of the Outer Branches will result in the removal from the BAICO estate of approximately 38,000 policies and associated liabilities of approximately EC$189 million.

4 Strategy for the EC Branches

The failure of BAICO is a significant issue for the EC region given that the Company was one of the leading providers of financial services in the EC.

The EC JMs have therefore worked in very close cooperation with the EC Governments in order to find a restructuring solution for BAICO's EC business.

4.1 Aborted sale of BAICO's EC business

While the restructuring of the Outer Branches was taking place, the Bahamas JM and the EC Governments were in lengthy and advanced discussions with an international financial services group for them to acquire all of BAICO's life and annuity EC business, including BAICO's branch infrastructure in each of the EC islands. This was the restructuring referred to as "Newco" and announced by the EC Governments in November 2009.

The execution of the proposed transaction, if it had been finalised, would have effectively completed the restructuring of BAICO and was expected to have resulted in BAICO's policyholders receiving a substantial portion of the value of their policies.

However, a sale could not ultimately proceed primarily due to the failure of the Government of the Republic of Trinidad and Tobago (the "GORTT") to provide appropriate funding for the transaction. As a result, in mid 2010, the sales discussions were terminated and the Bahamas JM and the EC Governments were forced to commence the implementation of a preferred alternative option. This plan is discussed in more detail below in Section 4.3.

4.2 Sale of BAICO's property insurance portfolio

BAICO sold property and household insurance to customers in the EC. Following the EC JMs appointment a process to dispose of BAICO's property insurance business to another insurance company was initiated. This disposal was successfully completed in early 2010.

4.3 Current strategy for the EC Branches

Substantially all of the Outer Branches have now been finalised. Following the termination of the "Newco" solution, in 2010 the EC JMs in conjunction with the EC Governments agreed on an alternative three-stage restructuring for the EC business. The plan consists of:

- Stage 1: Creation of a compensation fund to settle eligible claims of BAICO's health insurance policyholders in the EC;
- Stage 2: The substantial recapitalisation, using funds provided by the EC Governments from the Liquidity Support Fund, of BAICO's traditional life insurance portfolio and sale of this portfolio to a third party; and
- Stage 3: The pursuit of the creation of a compensation scheme for BAICO's non-traditional policyholders.

4.4 Stage 1: Creation of the ECCU/BAICO Health Insurance Support Fund

In May 2011 an EC Government sponsored Health Insurance Support Fund ("the Fund") was established to settle the eligible claims of BAICO's EC health insurance policyholders.

The Fund was funded principally by contributions from the Liquidity Support Fund established by the EC Governments, and is administered by an independent trustee. Applications received from valid BAICO health insurance policyholders will be reviewed by the independent trustee and payment made for valid claims up to the cut-off date (the cut-off date for health insurance policyholders to make Applications to the Fund is 31 December 2011).

The EC JMs will continue to work in close cooperation with the fund's trustee to enable it to pay all Applications relating to eligible BAICO health insurance claims.

Further information on the procedure for submitting claims to the Fund can be obtained from the EC JMs in each BAICO branch - the contact details of which are provided at the end of this letter; or by visiting www.baico-intl.com.

4.5 Stage 2: Strategy for dealing with the EC traditional life insurance portfolio

The ECCU Governments have already announced their intention to provide funding for the recapitalisation and sale of BAICO's traditional portfolio, provided the capital required is within funding limits. For much of 2011, the JMs and the ECCU Governments have been collaborating to implement the requirements for this sale. The transfer of the traditional life insurance business will be subject to the approval of the individual courts in each of the EC jurisdictions.

4.5.1 What will the transfer of the EC traditional business portfolio mean for BAICO policyholders?

By effecting the sale, the EC Governments and the EC JMs would be able to provide a solution for over 20,000 BAICO life insurance policyholders in the EC.

A successful transfer of this business will also mean that the traditional life policies held by BAICO's customers will be transferred to a new life insurance company. At present the Bahamas JM is identifying prospective purchasers of this business with a view to selecting an appropriate buyer that can take on the BAICO business. This process formally commenced on 14

September 2011 with the publication across the EC and further afield of a notice seeking expressions of interest in purchasing the portfolio.

There are a number of technical issues that also must be worked through, including establishing the exact amount required to recapitalise the portfolio, and ensuring that sufficient funds are available to finalise the transaction as proposed.

It is planned that the process, subject to the approval of the various EC Courts, will be completed in the first half of 2012.

4.6 Stage 3: Strategy for the EC Branches non-traditional policyholders

Following the transfer of the traditional business portfolio the only remaining business in BAICO would substantially be the annuity and investment contracts in the EC Branches (other than a small number of other policyholders, specifically those in the Panama and Guyana branches).

Non-traditional policyholders within the EC constitute approximately 11,000 BAICO policyholders, and represent a very significant proportion of BAICO's liabilities.

The EC JMs will work with the Core Committee on Insurance, in conjunction with the Government of Trinidad & Tobago and Caribbean Development Bank, to explore whether a funding mechanism can be established for the remaining annuity and investment contract liabilities of the EC Branches and, if so, how it would operate.

4.6.1 Payments to the Company's annuitant and investment contract holders

Due to the Company's insolvency, until such time that a restructuring of the Company's affairs can be completed, the Company is unable to make any payments to its policyholders, including for matured or terminated policies, or claims. The quantum of payments to the non-traditional policyholders is highly dependent on the availability of funding from external sources such as the EC Governments, and the GORTT. Should the plan of reorganisation fail, then the timing and amount of payments to the Company's annuitants could be severely impacted.

5 Actions to recover assets for BAICO's policyholders

5.1 Protection of BAICO's US assets - Chapter 15 recognition

BAICO made a number of extremely significant investments in the Florida real estate market between 2003 and 2008. Upon their respective appointments, the EC JMs were required to try to protect and recover

BAICO's US assets. However, given that BAICO is not a US incorporated company the EC JMs were required to seek recognition and assistance from the United States Bankruptcy Court ("USBC") in order to protect BAICO's US assets.

Therefore in November 2009, Brian Glasgow, the Saint Vincent and the Grenadines ("SVG") Court appointed JM of BAICO, filed a petition in the USBC requesting the Court's recognition of BAICO's Judicial Management. In March 2010 the USBC granted recognition of the SVG Proceeding.

By obtaining the recognition of the USBC it has allowed the SVG JM to take possession of assets belonging to BAICO, on behalf of BAICO, in the US and also to obtain information from parties believed to have knowledge of the BAICO assets in the US. This process remains ongoing.

5.2 Litigation against BAICO's parent, CL Financial Ltd

In June 2011, the Bahamas JM instituted legal proceedings in the High Court of Justice in Trinidad & Tobago against CL Financial Ltd.

The Bahamas JM is seeking judgment against CL Financial Ltd for the non-payment of US$39.58 million in principal under a promissory note issued to BAICO in December 1998. He is also seeking the payment of approximately US$10.75 million in accrued unpaid interest under the promissory note.

The filing of this action followed extensive correspondence and discussions with CL Financial Ltd, which had taken place over the past 2 years. These negotiations ultimately failed to obtain a settlement from CL Financial Ltd and did not provide any firm commitment to pay the debt due to BAICO. As a result, the claim is now being formally prosecuted in the Trinidad & Tobago court.

In addition to the amounts due under the above promissory note, the Bahamas JM is continuing to assess the legal position relating to certain financial guarantees that were given by CL Financial Ltd to BAICO between 1998 and 2008.

5.3 Litigation against Green Island Holdings LLC and BAICO's former directors

On his appointment in September 2009, the Bahamas JM was required to deal with litigation that had been launched against BAICO by Green Island Holdings LLC ("Green Island"). The litigation related to a US$300 million Florida land transaction that BAICO had entered into with Green Island in 2008.

The Bahamas JM, the EC JMs and their legal advisers have now prepared a complaint against the various parties involved in the transaction and intend to launch formal legal proceedings against various parties in the coming weeks.

5.4 Legal action against Corban Fund II LLP

In 2008 BAICO invested cash in an investment fund known as the Corban Fund II which is based and incorporated in the US. The Fund Manager, Mr. Shiva Ramberran, is located in Florida. The funds that were transferred to the Corban Fund were valued at approximately US$10 million in 2009.

Since his appointment the SVG JM has made attempts to have the funds transferred to a bank account under his control. Following numerous approaches to the managers of the Corban Fund, formal subpoenas have been issued against Mr Ramberran and parties connected to the Corban Funds to compel them to provide information on the whereabouts of the funds.

Furthermore, Green Island had expressed its intention to attach the Corban Funds in connection with their litigation against BAICO. At the present time, the USBC has issued an order freezing the Corban Funds as part of the Chapter 15 application.

6 Ongoing communication strategy for BAICO's policyholders and creditors

Although the EC JMs have been informed by the ECCU Governments that discussions between representatives from the GORTT and the Core Committee have been constructive, as yet there is no clear agreement on the timing or extent of any financial support that the GORTT will provide to a BAICO EC solution.

Further communications will be issued to BAICO's EC policyholders once further progress has been made on the transfer of the traditional life portfolio and a solution for the annuity policies has been found.

7 Contact details

I appreciate that you may have a number of questions about the ongoing situation. Should you wish to discuss any aspect of this report please contact me at the following co-ordinates:

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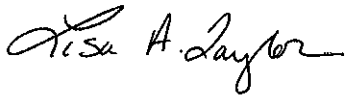
Yours truly



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