The BAI Group

Report

on the examination by

nTan Corporate Advisory Pte Ltd

Consultant appointed by

The Bank of Mauritius

27 January 2016

NOTE

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SCHEDULES

CHAPTER 1: INTRODUCTION

(A) Group overview

1. The BAI Group[1] had its origins in the insurance business. Over the years, the BAI Group diversified into a wide range of businesses including banking, financial services, healthcare, transportation, retail and the media. The focus of this report[2] is on the financial position, questionable transactions and questionable accounting practices of (1) BA Insurance, (2) BPF, and (3) Bramer Bank, which were the three main businesses within the BAI Group that could raise significant amounts of funds directly from the public, during the Review Period.

2. The introduction to the BAI Group website reads: "*Profits with integrity, through marketing of innovative products and services using the best employment practices, for the benefit of all stakeholders"*. As this report will show, the very first word, "profits", was not true and that negates the whole phrase "*Profits with integrity … for the benefit of all stakeholders*".

3. While the BAI Group presented itself as a successful conglomerate and was ranked as one of the top groups in Mauritius, it was not profitable and incurred massive multi-year losses until its collapse in 2015.

4. In the four-year period between 1 January 2010 and 31 December 2013, the BAI Group lost some Rs 14.7 billion[3] (see table below). Even the best capitalised corporate groups in Mauritius would stagger under such losses (and the BAI Group was not one of the best capitalised corporate groups in Mauritius).

Year	**2010**	**2011**	**2012**	**2013**	**Total**
Loss for the year (Rs billions)	3.3	4.6	3.7	3.1	14.7

[1] The definition of this and other terms used in this report are set out in Schedule 2 on page 80.

[2] Benoit Chambers (Mauritius) and Allen & Gledhill LLP (Singapore) provided us with invaluable assistance in the preparation of this report.

[3] These losses were extracted from the working papers in respect of the consolidation of the financial statements of Klad and its subsidiaries (2010 to 2012 audited and 2013 unaudited).

5. As a result of the losses incurred, the BAI Group's liabilities exceeded its assets and it was balance sheet insolvent. As at 31 December 2010, the BAI Group's liabilities exceeded its assets by some Rs 1.2 billion. Three years later, as at 31 December 2013, this shortfall ballooned to some Rs 12 billion.

6. In other words, if the BAI Group had closed down on either 31 December 2010 or 31 December 2013, successfully sold all of its assets for the values recorded on its balance sheets and tried to pay off its liabilities, there would have been a shortfall of some Rs 1.2 billion or Rs 12 billion respectively.

7. Even though the BAI Group was balance sheet insolvent, it managed (albeit temporarily) to continue operating[4] primarily because it was able to raise enormous amounts of funds from the public to pay off the creditors, policyholders and investors when its obligations fell due. The *modus operandi* of the BAI Group is explained in Chapter 2.

(B) BA Insurance, BPF and Bramer Bank

8. In or around 1992, Mr. Dawood Rawat acquired a controlling interest in BA Insurance. By 2014, BA Insurance was the largest life insurance company in Mauritius. It offered insurance products including life insurance and a product known as the Super Cash Back Gold policy. BA Insurance was an insurer licensed and regulated under the Insurance Act 2005.

9. BPF started as a mutual fund investing in real estate. From 2008, BPF added Related Party Investments to its portfolio of assets. BPF raised funds from the investing public through the issuance of BPF Preference Shares. BPF was regulated under the Securities Act 2005.

10. In 2008, the BAI Group acquired South East Asian Bank Ltd and re-named it as "Bramer Banking Corporation Ltd", *i.e.* Bramer Bank. An amalgamation between Bramer Bank and two other BAI Group companies[5] took place in 2012 with Bramer Bank as the surviving company. Bramer Bank held a banking licence and carried out its entire business in Mauritius.

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[4] In that for many years it was able to pay its liabilities as they fell due.

[5] MLC and BHCL.

11. On 2 April 2015, BoM revoked the banking licence of Bramer Bank and placed Bramer Bank in receivership.

12. On 3 April 2015, the FSC invoked its powers under the Insurance Act 2005 to appoint Conservators to BA Insurance.

13. This was followed by the appointment of Administrators to BPF as well as other BAI Group companies. Special Administrators subsequently replaced these Administrators and took control of most of the BAI Group.

14. On 8 May 2015, nTan was appointed by BoM to carry out its mandate as set out in the communique issued by BoM on 6 May 2015.

15. In the course of our examination, we have found that there is cause for concern over the way in which publicly-raised funds were applied within the BAI Group, and doubt as to the (extent of) recoverability of these funds even before the fall of the BAI Group. We elaborate on these findings in the following chapters.

CHAPTER 2: THE *MODUS OPERANDI* OF THE BAI GROUP

16. As mentioned in Chapter 1, the three main businesses within the BAI Group that could raise significant amounts of funds directly from the public were (1) BA Insurance, (2) BPF, and (3) Bramer Bank.

(A) The Schemes of BA Insurance and BPF

17. BA Insurance and BPF were operating Ponzi-like schemes[6] (the "**Schemes**") for the larger part of the Review Period. The instruments used in these Schemes were the Super Cash Back Gold policies and BPF Preference Shares[7], offered by BA Insurance and BPF respectively, which promised high returns[8] at low risk[9] to lure investors to put their funds in these financial products[10].

18. We explain how BA Insurance and BPF carried out their Schemes in Figure 1 below.

[6] Returns paid to existing policyholders and investors of BA Insurance and BPF were paid out of funds raised from new policyholders and investors. To lure new policyholders and investors, BA Insurance and BPF offered insurance policies and BPF Preference Shares respectively that offered returns higher than were sustainable by BA Insurance and BPF. Both BA Insurance and BPF had to attract new investments at an ever-increasing rate to meet their existing commitments and would inevitably collapse under the weight of their liabilities.

[7] BPF offered BPF Preference Shares which resembled promissory notes where the holders were entitled to be paid a fixed return, and repaid a fixed sum (the principal investment) at maturity.

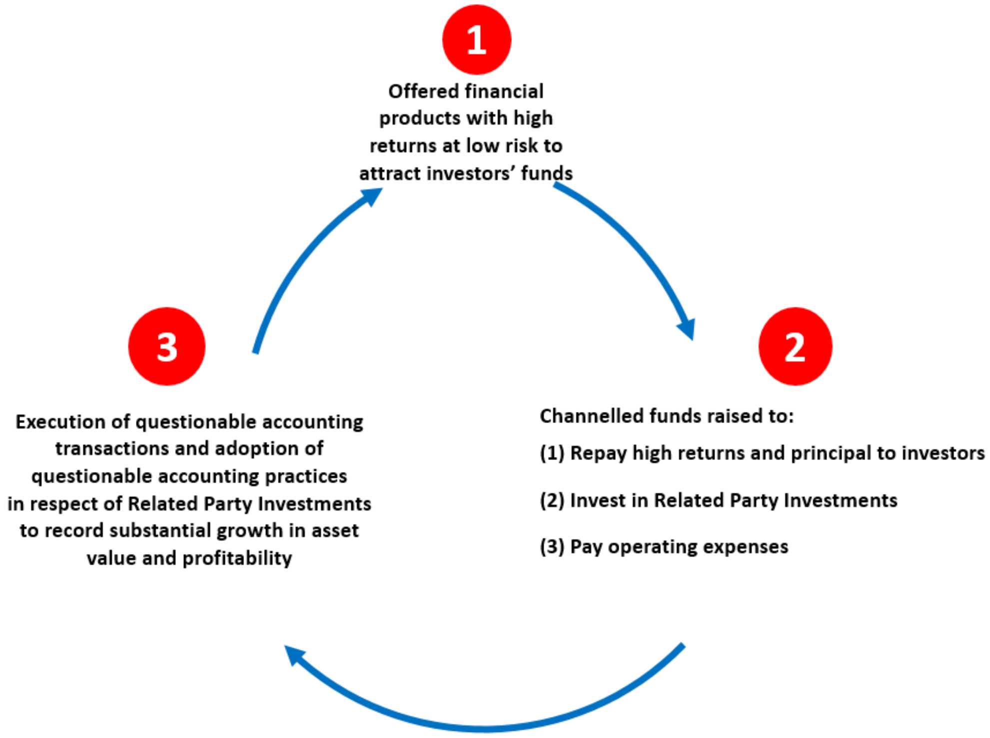
[8] The fixed returns were higher than retail bank deposit rates. Unlike interest from bank deposits, returns from insurance policies and preference shares were not subject to income tax.

[9] Super Cash Back Gold policies offered high returns, repayment of principal and insurance cover.

BPF Preference Shares offered returns ranging from 8.5% to 20% per annum and repayment of principal at maturity.

[10] During the Review Period, BA Insurance and BPF raised respectively some Rs 45.8 billion and some Rs 5.4 billion from the public by offering insurance policies and BPF Preference Shares.

Figure 1



19. First, BA Insurance and BPF offered insurance policies and BPF Preference Shares respectively, which promised high returns at low risk. Given the attractive terms of these financial products, it was no surprise that BA Insurance and BPF managed to raise large amounts of funds from the public.

20. Second, the funds raised by BA Insurance and BPF were used as follows:

(1) to pay the high returns promised and to repay existing policyholders and investors when these commitments fell due;

(2) to fund[11] related parties in the form of Related Party Investments for their own purposes; and

(3) to pay operating expenses.

[11] During the Review Period, BA Insurance and BPF channelled at least some Rs 10.8 billion and some Rs 2.8 billion respectively in the form of Related Party Investments.

21. Third, BA Insurance and BPF, through various questionable transactions and accounting practices, created the illusion of growth in asset value and profitability, in particular by recognising substantial accounting gains on the Related Party Investments. This illusion of profitability led the public into thinking that these companies were sustainable and financially strong[12]. No doubt this, in turn, lured the public into investing more funds and/or re-investing the matured proceeds in the financial products offered by BA Insurance and BPF, thereby repeating the vicious cycle and perpetuating the Schemes of BA Insurance and BPF.

22. Save for paying returns to investors and paying for operating expenses, most of the remaining funds raised from the public were channelled to Related Party Investments for the BAI Group's own purposes. At the same time, BA Insurance and BPF were able to recognise significant questionable accounting gains on these Related Party Investments.

23. In order to sustain the Schemes, funds were channelled to Related Party Investments which were subsequently recorded as having "generated" significant amounts of accounting gains (including fair value gains, unpaid interest income and unpaid dividend income). This obscured BA Insurance's and BPF's true financial position and gave policyholders and investors the impression that BA Insurance and BPF were sustainable, profitable and financially strong.

24. The above-described Schemes of BA Insurance and BPF perpetuated a vicious cycle of (1) public fund-raising, (2) questionable usage of the funds raised, and (3) cover-up of the ever-widening gap between promised repayment of principal amounts and returns to policyholders / investors and the (lack of) actual income generated by BA Insurance's and BPF's underlying investments and the recoverability of the Related Party Investments.

25. The reality, however, was that BA Insurance and BPF were both unsustainable. The returns promised to the public were higher than the actual income generated by BA Insurance and BPF, once the questionable accounting gains were excluded. Whilst the new funds raised from the public were used to make up the cash shortfall in returns due to policyholders / investors initially, this would only provide temporary respite. Without sufficient cash inflow from genuine income to support the returns promised to

[12] This impression was reinforced by the timely payment of returns, using fresh funds raised from the public.

policyholders and investors, the shortfall widened over time until it was too wide to be bridged. The shortfall was exacerbated by the channelling of funds raised from the public into the Related Party Investments, and the collapse of the BAI Group was hastened by the inability of the related parties to repay the funds which they had received via the Related Party Investments.

26. We elaborate on BA Insurance in Chapter 3 and on BPF in Chapter 4.

(B) Bramer Bank

27. Bramer Bank, as the most tightly regulated[13] entity within the BAI Group, was less able to engage in questionable transactions and accounting practices using funds from depositors. Nevertheless, Bramer Bank entered into transactions during the Review Period in which funds were irregularly made available to related parties in the BAI Group. These transactions should have caused Bramer Bank to breach various regulatory limits imposed by BoM, save that Bramer Bank did not include these transactions in its calculations of the said regulatory limits. The full recoverability of the outstanding balances owing from transactions with related parties is also in doubt.

28. The matters relating to Bramer Bank are elaborated in Chapter 5.

(C) Others

29. We have also identified in Chapter 6 where BAI Group companies channelled funds of (at least) some Rs 1 billion to Mr. Dawood Rawat and/or his family members and/or for their benefit. However, given the constraints of time and limited access to and availability of certain records, documents and personnel, we have been unable to ascertain if additional payments were made by the related parties, which had received funds amounting to (at least) some Rs 17.3 billion[14] from BA Insurance, BPF and Bramer Bank, with the objective of benefiting members of the Rawat family and associates.

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[13] Bramer Bank was regulated by BoM.

[14] Including some Rs 3.6 billion of funds involved in the 31 December 2009 round-tripping transactions.

CHAPTER 3: BA INSURANCE

(A) High return products offered by BA Insurance to the public

30. As mentioned in Chapter 2, during the Review Period, BA Insurance raised large amounts of funds from the public by selling insurance policies. Between 2007 and 2014, BA Insurance raised some Rs 45.8 billion in insurance net premiums.

31. BA Insurance was successful in raising funds through the sale of its insurance products. Its most popular insurance product was the Super Cash Back Gold policy. It was marketed as "*excellent value for money*" and the promised returns were significantly higher than the prevailing bank deposit rates[15].

32. By way of illustration, for a minimum one-off premium of Rs 25,000 paid at inception[16], policyholders were promised:

    (1) payouts up to 110% of the premium paid in the event of death of the insured;

    (2) a maturity benefit at the end of the term equivalent to the premiums paid;

    (3) a "Cash Back Bonus Benefit", which was an annual guaranteed bonus payment at rates which depended on the frequency of the bonus. This bonus ranged from 5.05% to 12.75% per annum, depending on the tenure of product purchased; and

    (4) an "End-of-Term Bonus" depending on the repo rate at the maturity date of the policy.

33. With the promise of such high returns, it was little wonder that premiums from the Super Cash Back Gold policies accounted for some 80% of the total gross premiums received by BA Insurance from its insurance policies during the Review Period.

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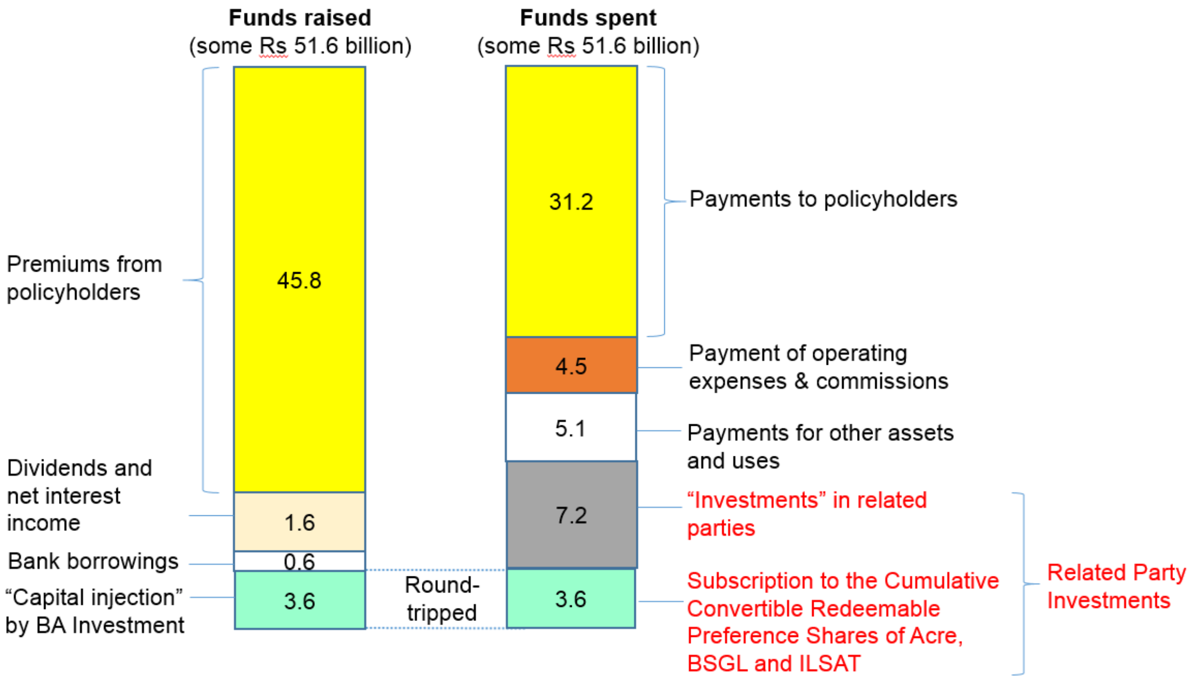
[15] We have not compared the returns with those of other insurance products sold by other insurance companies in Mauritius.

[16] Based on a brochure on the Super Cash Back Gold policy dated 19 May 2014.

(B) Funds raised and spent

34. However, a closer analysis of the funds raised and spent by BA Insurance during the Review Period reveals a financially unsustainable and troubled business. We explain below.

Figure 2



35. Of some Rs 51.6 billion in funds received by BA Insurance during the Review Period:

(1) some Rs 45.8 billion was derived from net premiums received from insurance policies purchased by the public;

(2) a comparatively meagre sum of approximately Rs 1.6 billion was derived from dividends and net interest received on BA Insurance's investments;

(3) bank borrowings accounted for some Rs 0.6 billion; and

(4) a "capital injection" of Rs 3.6 billion had purportedly been made by BA Investment (in order for BA Insurance to comply with the Insurance (Long-Term Insurance Business Solvency) Rules 2007). However, for reasons which will be explained in greater detail in paragraph 43 below, actual cash of Rs 3.6

billion was not retained by BA Insurance as this sum was transferred back to its original source on the same day as the purported "capital injection", by way of a "round-tripping" transaction.

36. Discounting, therefore, the purported "capital injection" of Rs 3.6 billion, net premiums from the policyholders actually accounted for 95% of BA Insurance's available funds during the Review Period. In stark contrast, the actual cash returns received by BA Insurance from its investments (Rs 1.6 billion) contributed only some 3.3% of BA Insurance's cash inflow during the same period. These findings are troubling because they indicate that BA Insurance was almost wholly dependent on publicly-raised funds to meet its payment obligations, with negligible other cash-generating sources of income. These findings become even more troubling when one considers that BA Insurance was committed to paying out *far higher returns* to its policyholders than the genuine income it had earned from its investment of publicly-raised funds.

37. Indeed, during the Review Period, BA Insurance had to pay out some Rs 31.2 billion to its policyholders for their claims and benefits. This pay-out could never have been met by some Rs 1.6 billion in dividends and net interest received by BA Insurance from its investments. Moreover, BA Insurance did not realise, and indeed did not have the ability to realise, any significant funds from the disposal of the Related Party Investments it held. Quite clearly, BA Insurance was relying on funds raised from existing and new policyholders to pay out claims and benefits due to existing policyholders. This was obviously not a sustainable practice in the long-term. In the short-term, however, the pay-outs made by BA Insurance gave the public a false sense of security in its business and insurance products, which presumably contributed to even more funds provided by the public in these same financial products, thus perpetuating the Scheme.

38. Mr. [redacted], the BAI Group Chief Operating Officer, stated as much in his June 2010 "Transformation Strategy" paper that "*[w]ith the very low cash return on the investment portfolio, there is a need for [BA Insurance] to continue raising new funds for servicing its existing commitments, operating expenses and payment of claims and bonuses*".

39. As can be seen from Figure 2, the other significant category of cash outflows from BA Insurance during the Review Period was the channelling of some Rs 10.8 billion into Related Party Investments. This comprised:

(1) investments in CCRPS issued by Acre, BSGL and ILSAT[17] of Rs 3.6 billion;

(2) net cash advances to BA Investment of (at least) some Rs 3.1 billion;

(3) acquisition of the ABH Property for Rs 2.5 billion;

(4) investments in Bramer Bank debentures of Rs 0.25 billion; and

(5) net cash advances to related parties including Bramer Bank and BPF of (at least) some Rs 1.4 billion.

As will be elaborated in Part (F) of this Chapter, the recoverability of the bulk of these Related Party Investments is doubtful.

(C) The false image of BA Insurance's profitability – a snapshot

40. As mentioned in Chapter 2, BA Insurance's substantial growth in asset value and profitability during the Review Period was the result of various questionable transactions and questionable accounting practices carried out in the course of the Scheme. In particular, over the Review Period, BA Insurance recorded (1) fair value gains of some Rs 11.4 billion, and (2) interest income of some Rs 4.5 billion on its Related Party Investments. As we will elaborate in Parts (D) and (E) of this Chapter, however, BA Insurance's premises for recording these asset value "increases" were, for the large part, questionable. If adjustments to BA Insurance's financial statements for the Review Period were made to exclude these "increases", BA Insurance would have made a loss of some Rs 10.6 billion over the Review Period instead, as can be seen from the following table:

[17] As part of the 31 December 2009 round-tripping transactions.

Figure 3[18]

(In Rs billions)	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	Total	
Loss from operations	(0.1)	(0.7)	(0.2)	(1.0)	(1.6)	(2.0)	(1.6)	(1.3)	(8.5)	
Expenses	(0.3)	(0.4)	(0.5)	(0.5)	(0.4)	(0.4)	(0.5)	(0.7)	(3.8)	
Investments and other income	0.7	1.6	0.8	1.7	2.2	2.6	2.5	2.2	14.3	
Profit for the year (as reported)	**0.3**	**0.5**	**0.1**	**0.2**	**0.2**	**0.2**	**0.3**	**0.2**	**2.0**	(A)
Adjustments:										
Fair value gains and amalgamation surplus	(0.3)	(1.0)	(0.5)	(1.9)	(1.4)	(1.4)	(1.8)	(3.2)	(11.4)	(B)
Interest on Related Party Investments	-	(0.2)	(0.4)	(0.5)	(0.6)	(0.9)	(1.2)	(0.7)	(4.5)	(C)
Net (reversal of) / provision for impairment	(0.0)	(0.2)	0.2	0.8	0.0	(0.1)	0.7	1.9	3.3	(D)
Adjusted loss for the year	**(0.1)**	**(0.9)**	**(0.6)**	**(1.5)**	**(1.8)**	**(2.2)**	**(1.9)**	**(1.7)**	**(10.6)**	(E)=(A)-(B)-(C)-(D)

41. We now elaborate on the questionable aspects of the fair value gains and interest income recorded by BA Insurance on its Related Party Investments during the Review Period.

(D) Fair value gains on its Related Party Investments

42. BA Insurance recorded some Rs 11.4 billion in net fair value gains during the Review Period, from the following investments:

Figure 4

Investments		**Fair value gain** (in Rs billions)
(1)	Acre, BSGL and ILSAT	2.7
(2)	BA Kenya	4.7
(3)	Bramer Bank, BHCL and MLC	4.8
(4)	Others	(0.8)
Total		**11.4**

[18] Based on BA Insurance's audited profit and loss statements and accounting records.

Acre, BSGL and ILSAT

43. To begin with, BA Insurance's acquisition of Rs 3.6 billion worth of CCRPS (a type of preference shares) in Acre, BSGL and ILSAT (related parties within the BAI Group) was not, in substance, a genuine investment. It was, in reality, part of a series of round-tripping transactions designed to convey the impression that BA Insurance had received a "capital injection" of Rs 3.6 billion and thus met its statutory solvency requirements (as mentioned in paragraph 35(4) above):

(1) On the last day of FY2009 (*i.e.* 31 December 2009), BA Investment "injected" Rs 3.6 billion into BA Insurance to subscribe to ordinary shares of BA Insurance. BA Insurance then "invested" the Rs 3.6 billion in Acre, BSGL and ILSAT, by way of acquiring CCRPS in the said three companies. Acre, BSGL and ILSAT then "transferred" the Rs 3.6 billion back to BA Investment on the very same day, which enabled BA Investment to pay down the (one-day) bank facility[19] of Rs 3.6 billion which it had obtained to make the "capital injection" into BA Insurance in the first place.

(2) The above transactions had the effect of converting BA Insurance's deficit solvency position as at 31 December 2007 and 31 December 2008 to a surplus solvency position from 31 December 2009 onwards, such that BA Insurance

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[19] BA Investment obtained a temporary facility of Rs 3.6 billion from [redacted] on 31 December 2009 to carry out the round-tripping transactions, which involved [redacted] accounts of BA Investment, BA Insurance, Acre, BSGL and ILSAT.

The facility amount of Rs 3.6 billion was very substantial when considered in the context of [redacted]

Considering the substantial amounts involved, it is likely that these transactions required the approval of (and were approved by) the [redacted]

Given that these were significant transactions which all took place on a single day, in particular, the last day of the financial year, BDO (which was the auditor of [redacted]) should reasonably have detected these questionable transactions during its audit. It is unclear if BDO identified these questionable transactions and/or raised any queries with [redacted] management. If BDO had noted these questionable transactions, they would reasonably have been expected to report them to [redacted] BoM.

However, a review of available documents seems to suggest that BDO did not identify or highlight critical issues in relation to BA Investment's (one-day) [redacted] and/or the related transactions during their audit and review in 2010.

appeared to have complied with the Insurance (Long-Term Insurance Business Solvency) Rules 2007[20].

(3) However, this series of transactions appeared to have been carried out for regulatory compliance purposes. BA Insurance did not enjoy any genuine economic benefit from the funds "received" from BA Investment, as all the above transactions were carried out on a "back-to-back" basis.

(4) BA Insurance's "investment" in CCRPS of Acre, BSGL and ILSAT thus appears to have been no more than a guise to round-trip Rs 3.6 billion of funds back to BA Investment.

(5) In fact, during KPMG's presentation to BA Insurance's Audit Committee on 27 March 2012, it was stated that "*no actual cash was injected at the time of this transaction*"[21].

44. Given the questionable premises of this investment, it was doubtful from the start whether BA Insurance was ever meant to realise or recover its investment in these CCRPS "assets".

45. Yet, to compound matters, BA Insurance recorded *fair value gains* on these CCRPS on the following premise. A fixed cumulative preferential dividend of 14% was supposed to be payable to the CCRPS holder (*i.e.* BA Insurance). During the period from FY2010 to FY2012, BA Insurance recorded dividend receivables of some Rs 1.5 billion from Acre, BSGL and ILSAT as fair value gains on these CCRPS. Accordingly, the carrying amount of these CCRPS increased by the quantum of the dividend receivable.

46. The fair value gains recorded were questionable as it was doubtful that the investment in the CCRPS would be recoverable or redeemable. Indeed, BA Insurance never received any cash returns from its investment in the CCRPS. In fact, in March 2011, KPMG stated[22] that recoverability of the investment in the CCRPS was "*doubtful*" and

[20] BA Insurance is required to have sufficient assets in excess of its technical provisions and minimum capital requirements under the Insurance (Long-Term Insurance Business Solvency) Rules 2007.

[21] Audit Committee meeting minutes dated 27 March 2012, p. 2.

[22] KPMG's FY2010 Presentation, p.17.

"*no cash movement [was] expected*" from these instruments. As it transpired, BA Insurance eventually converted the CCRPS to ordinary shares in Acre, BSGL and ILSAT, and waived (in the case of Acre and ILSAT) or capitalised (in the case of BSGL) the dividend receivables as the said companies were unable to make the relevant payments at the time of redemption. As such, on conversion of the CCRPS into ordinary shares in Acre, BSGL, and ILSAT, BA Insurance had foregone its rights to full repayment under the CCRPS. Following the conversion, BA Insurance also went on to recognise a collective net fair value gain of some Rs 1.2 billion[23] on its investment in these three companies.

BA Kenya

47. BA Insurance recorded a net fair value gain of some Rs 4.7 billion arising predominantly from its equity investment in BA Kenya[24], based on the increase in the price of BA Kenya's shares which were listed on the Nairobi Securities Exchange of Kenya. In the absence of further information, we are unable to ascertain the reasonableness of the fair value gain on this investment.

Bramer Bank, BHCL and MLC

48. As at 31 December 2011, BA Insurance owned shareholdings of 76% in Bramer Bank, 69% in MLC and 100% in BHCL. During the Review Period, BA Insurance recognised a cumulative net fair value gain of some Rs 4.8 billion on its investments in Bramer Bank, BHCL and MLC, comprising the following:

(1) During the period FY2007 to FY2011, BA Insurance recognised a net fair value gain of some Rs 1.6 billion arising predominantly from the share price movements of MLC (which was listed on SEM at the material time).

(2) During the period from FY2008 to FY2012, BA Insurance recognised a cumulative net fair value gain of some Rs 3.2 billion on its stake in Bramer

[23] We have not been provided with the basis of the net fair value gain of some Rs 1.2 billion.

[24] Further information and advice from Mauritian lawyers would be required to ascertain if there had been a potential circumvention of the Insurance (Long-Term Insurance Business Solvency) Rules 2007 in the way BA Insurance restructured its investment in BAFS (through which BA Insurance held its equity stake in BA Kenya) in 2009.

Bank, BHCL and MLC (which were amalgamated with Bramer Bank as the surviving entity), including an amalgamation surplus.

49. The cumulative net fair value gain of some Rs 3.2 billion recorded by BA Insurance on its shareholding in Bramer Bank (*i.e.* the amalgamated entity) at the time of the amalgamation is doubtful as it was based on a questionable valuation by ICFL (the valuer) of Bramer Bank at some Rs 8.6 billion:

(1) First, ICFL had cautioned that "*valuing the Super Bank*[25] *is a potentially treacherous exercise, as it [involves] valuing a business that does not as yet exist*".

(2) Second, ICFL had relied on the average forecast book value between FY2012 and FY2017 of Bramer Bank provided by the management of Bramer Corporation. This average forecast book value was some [redacted]% of the net asset value of Bramer Bank. However, ICFL indicated that its "*mandate does not include a critical review of forecast statements supplied by Bramer Corporation management*".

(3) Third, in arriving at the value of Rs [redacted] billion for Bramer Bank, ICFL had applied a price/book multiple of 3.5x, as compared to the "*two local banks listed on the SEM [which] traded at respectively 1.6x ([redacted]) and 1.3x ([redacted])*". As a result of applying a 3.5x price/book multiple to the average forecast book value, the valuation of Bramer Bank was 6.5x of the net asset value at the time of valuation[26].

(4) Finally, even assuming that the average forecast book value and the valuation multiple were individually justifiable (which is doubtful), the "growth element" of Bramer Bank may had been double-counted. The forecasts provided by the management of Bramer Corporation had already incorporated a growth element. Yet, the valuation multiple had also factored in a growth element. This resulted in an inflated valuation when the average forecast book value was multiplied by the price/book multiple.

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[25] This was the project name which BAI Group used for the amalgamation exercise.

[26] ICFL justified this valuation by indicating that "*the scope for growth of the smaller banks is therefore much wider, and this should command a valuation premium, as exemplified by the private transactions of which they were the object*".

(E) Interest income on its Related Party Investments

50. BA Insurance recorded some Rs 4.5 billion in interest income on its Related Party Investments (which **remain unpaid**) comprising:

Figure 5

Related Party Investments		**Rs billions**
(1)	BA Investment	2.5
(2)	BramCorp subsidiaries	0.7
(3)	Greensboro	0.3
(4)	Others	1.0
Total		**4.5**

51. It is doubtful that the outstanding interest income would have been recovered. BA Insurance knew it received negligible cash returns on its Related Party Investments[27]. KPMG's letters to BA Insurance's management for FY2011, FY2012 and FY2013 also highlighted the same to BA Insurance. It was hence most improbable that BA Insurance would have been able to eventually recover the full amount of outstanding interest income on its Related Party Investments.

52. We have focused in particular on the outstanding amount owing by BA Investment to BA Insurance, given that this generated the largest amount of outstanding interest income recognised by BA Insurance.

53. BA Investment was indebted to BA Insurance from as early as 2004, and during the Review Period, this indebtedness grew from Rs 0.3 billion to Rs 6.4 billion, including outstanding interest income of some Rs 2.5 billion (computed at rates of between 11.0% and 13.0%).

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[27] Based on BA Insurance's quarterly investment reports.

54. BA Insurance's Audit Committee and KPMG were clearly aware of the recoverability issues concerning the amount owing by BA Investment, as is apparent from KPMG's FY2010 and FY2012 Presentations to the Audit Committee. Surprisingly, KPMG's observations on the questionable recoverability of the amount owing by BA Investment did not seem to deter BA Insurance from advancing more cash to fund BA Investment, as follows:

Figure 6

Year	**Net cash advances from BA Insurance to BA Investment (Rs million)**
2007	363
2008	1,279
2009	957
2010	110
2011	48
2012	227
2013	139
2014	-
Total	**3,123**

55. As the amount owing by BA Investment had exceeded the investment concentration limitation under the Insurance Act 2005, BA Insurance devised the following means of circumventing the limitation (which was approved at a Board meeting of BA Investment in August 2009):

> "***Re-channelling of [BA Investment's] current account*** *with the Company [i.e. BA Insurance]* ***via BA Treasury Co Ltd to remove excess investment concentration*** *in [BA Investment's] current account with the Company [i.e. BA Insurance].*"
>
> (emphasis in bold added)

56. In 2011 and again on 6 December 2013, the FSC instructed BA Insurance to "*stop further investments in its related entities in order not to increase its exposure in related party investments*". It is unclear why the FSC allowed BA Insurance (during the

intervening period between its 2011 instruction and the next instruction in December 2013) to disregard its 2011 instruction to stop making additional investments in related parties. In FY2014, BA Insurance moved away entirely from making cash advances to BA Investment. Instead, we note that, for the first time during the Review Period, in FY2014, BA Insurance started recording “technical fees” of some Rs 50.3 million in favour of BA Investment. We have been unable to ascertain if BA Investment had in fact rendered any services to BA Insurance to justify these “technical fees”.

(F) Losses incurred by BA Insurance

57. As at 31 December 2014, BA Insurance’s financial records showed some Rs 33.6 billion in assets, of which almost Rs 27.8 billion was in respect of Related Party Investments, mainly:

(1) ordinary shares of Acre, BSGL and ILSAT with a carrying value of some Rs 6.6 billion;

(2) some Rs 6.4 billion owing by BA Investment and Rs 0.3 billion owing by Greensboro;

(3) equity investment of some Rs 5.1 billion in BA Kenya[28];

(4) debentures of some Rs 4.8 billion issued by BramCorp subsidiaries;

(5) the ABH Property of some Rs 2.5 billion; and

(6) other amounts of some Rs 2 billion owing by other related parties.

Ordinary shares of Acre, BSGL and ILSAT

58. The principal operating subsidiary of Acre and ILSAT is Iframac (comprising the transportation business and Courts) and the principal operating subsidiary of BSGL is BAHEL (hospital business). Iframac and BAHEL are in Special Administration and the proceeds from their disposal are unlikely to provide any significant return to Acre, BSGL

[28] BA Insurance, through its indirect subsidiary British American (Kenya) Holdings Limited, holds 452,504,000 shares in BA Kenya.

and ILSAT. Although the ordinary shares of Acre, BSGL and ILSAT had a combined carrying value of Rs 6.6 billion as at 31 December 2014, their estimated realisable value could perhaps be Rs 0.5 billion[29] or less.

Amount owing by BA Investment

59. As at 31 December 2014, BA Investment owed BA Insurance some Rs 6.4 billion.

60. At least some Rs 3.1 billion of policyholders' funds were advanced by BA Insurance to BA Investment during the Review Period. There were a number of apparent red flags which indicated that there was no real prospect of recovering the cash advances made to BA Investment.

61. First, the amount owing by BA Investment grew significantly by some Rs 6.1 billion during the Review Period due mainly to the year-on-year accumulation of advances made to and interest due from BA Investment. As mentioned in paragraph 51 above, based on KPMG's letters to the management of BA Insurance for FY2011, FY2012 and FY2013, BA Insurance was "*not receiving any cash return*" on the amount owing by BA Investment. In fact, it was observed from BA Insurance's own quarterly investment reports presented to its Board that negligible cash returns were received on the amounts owing by related parties, including BA Investment.

62. Second, the amount owing by BA Investment grew so substantially that KPMG recommended that formal arrangements be implemented to safeguard this asset:

(1) On 28 March 2012, BA Insurance formalised a loan agreement with BA Investment where, amongst other things, a floating charge over all of BA

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[29] Estimated on the following basis:

a) Acre and ILSAT – main operating businesses are:
    i. Courts – sold for some Rs 360 million (based on media reports); and
    ii. Iframac – realisable value of motor business is probably negligible due to the loss of its vehicle dealerships.

b) BSGL – main operating business is BAHEL's loss-making hospital business which, together with the ABH Property (with a book value of some Rs 2.5 billion), have attracted a combined bid of some Rs 2.2 billion which is under consideration.

Given the above estimated realisable values of the companies' primary assets, we estimate that, correspondingly, the collective realisable value of the ordinary shares of Acre, BSGL and ILSAT could perhaps be Rs 0.5 billion or less.

Investment's assets (purportedly worth some Rs 12 billion) was created in favour of BA Insurance.

(2) Even then, the non-recoverability of the amount owing by BA Investment continued to be a concern and KPMG highlighted this in subsequent letters to BA Insurance's management. To assuage KPMG's concerns, with each financial year, BA Insurance had to provide a comfort letter to KPMG.

(3) On 28 March 2013, the loan agreement was updated to include terms for BA Investment to (a) reimburse the entire outstanding amount due to BA Insurance by 31 December 2016, and (b) increase its floating charge to some Rs 15 billion (previously Rs 12 billion) of BA Investment's total undertakings, assets, goodwill, and moveable and immoveable properties.

(4) On 28 March 2014, the loan agreement was further updated such that BA Investment had to pledge its entire shareholding in a number of group entities[30] to BA Insurance. In addition, BA Investment was required to procure a number of other group entities[31] to pledge their shareholding to BA Insurance.

Amount owing by Greensboro

63. We note from KPMG's FY2010 Presentation that BA Insurance was owed some Rs 584 million by Greensboro, on which BA Insurance recognised an impairment of some Rs 269 million to arrive at an outstanding net balance of Rs 315 million as at 31 December 2010. Between 2011 and 2014, the amounts owing by Greensboro (curiously) increased and BA Insurance made a provision for the impairment of the same additional amounts. As a result, as at 31 December 2014, the net amount owing by Greensboro to BA Insurance remained at Rs 315 million. It appears that BA Insurance had possibly made additional advances to Greensboro between 2011 and 2014. If indeed such advances were made, it is unclear what benefit BA Insurance could possibly have derived, especially when BA Insurance proceeded to make a provision for the impairment of those advances.

[30] Bramcom Holding Ltd, BSGL, Bramer Corporation, Media Metrix Ltd.

[31] Acre's and ILSAT's respective shareholdings in Iframac; BSGL's shareholding in BAHEL.

64. Greensboro appeared to have on-lent the funds received from BA Insurance to 19 property-holding sociétés. As at 31 December 2014, Greensboro had some Rs 313 million of receivables due from related parties. The recoverability of the amount owing by Greensboro to BA Insurance appears to be wholly dependent on the recoverability of the amount owing to Greensboro by the 19 sociétés.

65. Absent reliable financial statements of these sociétés and the valuation reports of the properties (which we are given to understand relate to Diplomat Gardens) held by these sociétés, we are unable to opine on the net realisable value of the properties and the corresponding realisable value of the amounts owing by Greensboro to BA Insurance. However, we note that KPMG made the following observations in this regard:

(1) "*[P]art of the funds disbursed [by BA Insurance to Greensboro] have been impaired in prior years. The probability of recovering the remaining balance due is considered to be low*"[32].

(2) BA Insurance was "*not receiving any cash return on the balance receivable"*[33] and*"[t]he recoverability is doubtful*"[34], and "*the Company received a payment of MUR 5.1m*" in FY2013 but "*it is considered as a one off repayment*"[35].

Equity investment in BA Kenya

66. As at 31 December 2014, the carrying amount of BA Insurance's equity investment in BA Kenya was some Rs 5.1 billion. This would be adversely affected by the 59.8% decline in BA Kenya's share price from KES 29.75 as at 31 December 2014 to KES 11.95 as at 25 January 2016. Based on BA Kenya's share price of KES 11.95 as at 25 January 2016, the market value of the shares in BA Kenya held by BA Insurance[36] would translate into some Rs 1.8 billion. We understand that a bid of some Rs 3.5 billion for this equity investment is under consideration.

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[32] KPMG's letters to the management of BA Insurance for FY2011, FY2012 and FY2013.

[33] KPMG's letters to the management of BA Insurance for FY2011 and FY2012.

[34] KPMG's letter to the management of BA Insurance for FY2011.

[35] KPMG's letter to the management of BA Insurance for FY2013.

[36] BA Insurance, through its indirect subsidiary British American (Kenya) Holdings Limited, holds 452,504,000 shares in BA Kenya.

Debentures of BramCorp subsidiaries

67. As at 31 December 2014, the carrying amount of BA Insurance's investment in the debentures issued by BramCorp subsidiaries was some Rs 4.8 billion.

68. On 4 May 2012, BA Insurance disposed of its shareholding in Bramer Bank to the BramCorp subsidiaries and received some Rs 6.3 billion of debentures issued by the BramCorp subsidiaries to BA Insurance as consideration. These were cumulative redeemable 10-year debentures with a coupon rate of 8.5% per annum payable at maturity and were secured against the shares in Bramer Bank.

69. Given that the most significant asset of each of the BramCorp subsidiaries was their shares in Bramer Bank and the debentures issued by them to BA Insurance were secured against the said shares in Bramer Bank, it was inevitable that a decline in the value of the shares in Bramer Bank would correspondingly impair the value of the said debentures.

70. Yet, despite the declining price of Bramer Bank shares from Rs 9.50 at the initial public offering in FY2012 to Rs 7.98 at the end of FY2013, BA Insurance continued to recognise interest income on the BramCorp subsidiaries' debentures and did not provide for any impairment.

71. It was only in FY2014 that BA Insurance recorded a provision for impairment of its investment in the BramCorp subsidiaries' debentures of some Rs 2.2 billion. We have not seen any records documenting the basis for the provision. However, by virtue of the recording of a provision for the said impairment, it appears that BA Insurance's management was of the view that the value and/or recoverability of the debentures had decreased.

72. Further, given that trading in Bramer Bank's shares has since been suspended and Receivers have been appointed, the value of Bramer Bank's shares would be adversely affected, and correspondingly, the realisation of any value from BA Insurance's investment in the BramCorp subsidiaries' debentures is highly doubtful.

Acquisition of the ABH Property

73. In August 2013, BA Insurance acquired the ABH Property from BAHEL for Rs 2.5 billion. The purchase was funded by way of BA Insurance: (1) taking over existing bank loans of BAHEL in the amount of some Rs 678 million, (2) making a cash disbursement of Rs 300 million to BAHEL, and (3) netting off some Rs 1.5 billion owed by BA Treasury to BA Insurance.

74. BA Insurance agreed to lease the ABH Property back to BAHEL for a period of 20 years starting from 1 September 2013 and ending on 31 August 2033. There would be a moratorium on the rent payable by BAHEL for the first two years of the lease, *i.e.* rent was only payable from 1 September 2015. The monthly rent starting from September 2015 was some Rs 8.3 million and would increase over the years to some Rs 18.8 million from September 2020 onwards.

75. The price of Rs 2.5 billion, at which BA Insurance acquired the ABH Property, appears to have been based on an over-valuation of the ABH Property.

76. BA Insurance's valuation of the ABH Property appears to have been based on the expected rent to be paid by BAHEL (the ABH Property was to be leased back to BAHEL). As there were indications that BAHEL would not be able to pay the rent on the ABH Property (as explained below), we question whether the ABH Property was properly valued at Rs 2.5 billion.

77. Prior to finalising the acquisition, BA Insurance was deciding between two possible values to be ascribed to the ABH Property, which were based on different potential rental income streams from BAHEL to BA Insurance:

(1) The first was a value of Rs 3.5 billion, whereby BA Insurance would have to charge BAHEL a monthly rent of Rs 5 million for the first two years, and Rs 25 million monthly for the third year with a 5% annual increase in the following years.

(2) The second was a value of Rs 2.5 billion, whereby there would be a moratorium on rent for the first two years. The rent would be 4% of the property value in the third year and grow by 1% per annum, up to 9% maximum.

(3) The Rs 2.5 billion valuation was eventually adopted as it was noted[37] that it was unlikely to be feasible for BAHEL to pay the higher rent needed to support the Rs 3.5 billion valuation.

78. The fact that BAHEL needed a two-year moratorium on the rent was an indication that BAHEL may not have been able to pay the rent to BA Insurance in the following years. However it appears that BA Insurance may not have taken this into account when it valued the ABH Property at Rs 2.5 billion.

79. In addition, BAHEL was consistently operating at a loss from FY2008 to FY2012, and had a cumulative loss from operating activities of some Rs 1.6 billion. This should have cast further doubt on BAHEL's ability to pay the contractual rent when it was due. However, BA Insurance also did not seem to take this into account when determining the valuation of the ABH Property at the time of acquisition in 2013.

80. It would appear that this was one of the transactions where BA Insurance had channelled funds to a related party under the premise of an investment in real estate.

81. On a curious note, for the purposes of FY2014 financial statements, a valuer, Broll Indian Ocean had arrived at a valuation of Rs 2.5 billion for the ABH Property. It appears that it partly based its valuation of the *hospital* on the *hospitality* sector:

> "*[w]e have for the purposes of this valuation benchmarked ourselves on the* ***<u>hospitality sector</u>*** *whilst at the same time taking into consideration the original costs of construction of the hospital with all the technical specialities*".
>
> (emphasis in bold and underline added)

82. As such, Broll Indian Ocean seems to have considered the "*[s]elling prices per key of* ***<u>hotel rooms</u>***" in determining the open market value of the ABH Property. It would seem wholly unusual that a hospital (which is *not* part of the hospitality sector) should be valued based on "hotel rooms".

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[37] A paper "*Project Report – Transfer of ABH Property to BAI*" dated 25 September 2012 stated that the first proposal (see paragraph 77 (1)) "*will have a huge negative impact on the cash flow of ABH in the long term due to the high rental cost required to support the MUR 3.5Bn of property valuation*".

83. We understand that a preferred bidder for the ABH Property (which has a carrying value of Rs 2.5 billion) ***together with BAHEL's hospital business*** has been selected. Its bid of some Rs 2.2 billion for both the business (owned by BAHEL) and the property (owned by BA Insurance) is currently under consideration.

Others

84. We note that BA Insurance had, between 2010 and 2012, paid a total of Rs 250 million to Bramer Bank to subscribe to two debentures issued by Bramer Bank. The debentures were for the purpose of raising funds to help to increase the Tier 2 Capital of Bramer Bank. As Bramer Bank's banking licence has been revoked and it has been placed into receivership with effect from 2 April 2015, the Bramer Bank debentures held by BA Insurance are probably worthless.

85. We also note that BA Insurance had [redacted] directly to Mr. Dawood Rawat. From FY2000 to FY2011, BA Insurance had [redacted] to Mr. Dawood Rawat, and only slightly more than half of this amount has since been repaid. As at June 2015, some [redacted] remained owing by Mr. Dawood Rawat.

(G) KPMG's observations during its audits of BA Insurance

86. KPMG was the auditor of BA Insurance from as early as 2004, and would presumably have been familiar with BA Insurance's operations and well aware of BA Insurance's financial performance and financial position.

87. Based on what we have seen from the minutes of meetings of BA Insurance's Audit Committee, KPMG would usually present the findings of its audit to the Audit Committee, prior to the issuance of the audited financial statements.

88. In the course of our examination, we unearthed two presentations by KPMG in March 2011 and March 2013 which identified the key issues that BA Insurance was facing at the material times.

89. We observed that the following issues were raised by KPMG in both KPMG's FY2010 Presentation and KPMG's FY2012 Presentation:

(1) BA Insurance's underlying insurance business was operating at a loss;

(2) BA Insurance was relying on fair value gains to show operating profit;

(3) BA Insurance was solvent from a regulatory perspective, only after the capital injection of Rs 3.6 billion on 31 December 2009 (which was part of the round-tripping transactions);

(4) BA Insurance's high exposure of assets invested in related parties;

(5) doubtful recoverability of BA Insurance's assets invested in related parties;

(6) significant shortfall between BA Insurance's guaranteed bonus rates to its policyholders and actual realised returns from its investment portfolio; and

(7) high reliance on renewals to finance maturity payouts.

90. The following new issues were highlighted in KPMG's FY2012 Presentation:

(1) responsibilities and obligations of directors, auditors and actuaries;

(2) ability of BA Insurance to continue as a going concern; and

(3) non-compliance with IFRS in respect of group consolidation for FY2010 and FY2011[38].

91. As seen above, KPMG highlighted a number of significant risks faced by BA Insurance in its presentations. Notwithstanding this, we note that KPMG gave an unqualified (or "clean") opinion on BA Insurance's financial statements for both FY2010 and FY2012.

92. KPMG ought to know its obligations under Section 43 of the Insurance Act 2005 to report to the FSC when it became aware or had reason to believe that, amongst others:

(1) the insurer's financial soundness is seriously prejudiced, or the insurer's ability to otherwise comply with the Insurance Act 2005 and the rules (FSC Rules) is seriously impaired;

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[38] Eventually, on 17 September 2014, the audited consolidated financial statements of Klad Group were finalised and subsequently filed in the Bahamas.

(2) there is any material change in the business of the insurer which may jeopardise its ability to continue as a going concern;

(3) rules and guidelines made by the FSC have not been or are not being properly complied with;

(4) a financial crime or any serious irregularity is being, has been committed, or is likely to be committed;

(5) losses have been incurred which reduce the amount paid as stated capital or assigned capital, as the case may be, by 50% or more; and/or

(6) the insurer is unable or is not likely to meet the margin of solvency.

93. The above raises the following questions:

(1) What assurances or representations did the management of BA Insurance provide to KPMG such that KPMG was able to give an unqualified opinion on its audited financial statements for FY2010 and FY2012?

(2) Did KPMG challenge the representations or assumptions provided by the management of BA Insurance during the course of the audits?

(3) What work did KPMG undertake to address the issues it identified in paragraphs 89 and 90 above? In particular, how did KPMG satisfy itself that the issues were not an impediment to issuing an unqualified (or “clean”) opinion on BA Insurance’s relevant audited financial statements?

(4) In view of KPMG’s obligations under the Insurance Act 2005, should it have reported to the FSC the issues regarding:

(a) BA Insurance’s ability as a going concern;

(b) doubts over financial soundness of BA Insurance;

(c) BA Insurance’s ability to meet the margin of solvency; or

(d) the Rs 3.6 billion round-tripping transactions on 31 December 2009?

94. After the completion of the FY2010 audit, KPMG highlighted in its management letter the implication of investments and loans to related parties that "*[t]he Company may be subject to queries from the regulator as it is not using policyholders' funds appropriately*".

95. During KPMG's FY2012 Presentation, KPMG also highlighted to the Audit Committee the directors' responsibility to "*act honestly and in the best interests of the insurer and policyholders*" under Section 31(3) of the Insurance Act 2005. KPMG even went further to ask whether "*the Board [had] made an assessment of going concern viability of [BA Insurance]*". It is clear that the directors and members of the Audit Committee in BA Insurance were aware of all these issues. In particular, Mr. Dawood Rawat was also present when KPMG made the presentation[39]. He ought to have been fully aware of the issues raised by KPMG, in particular those of the solvency and going concern status of BA Insurance, and the consequent implications on the BAI Group's solvency.

96. BA Insurance's high exposure to its related parties was not unknown to the FSC[40], and had also invited concern from the IMF in its 2007[41] and 2012 reviews. It is unclear how BA Insurance was able to proceed on its interpretation of the related party exposure limit[42]. Could this be due to the fact that the FSC placed undue reliance on the "BAI" name and the assurances given in that name?

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[39] BA Insurance's 25 March 2013 Audit Committee meeting minutes stated that the meeting was convened at 3pm, Mr. Dawood Rawat joined the meeting at 3.15pm, and "*[t]he Chairman Emeritus and the representatives of Messrs KPMG left the meeting at 15.50 hrs*".

[40] The FSC is responsible for ensuring that its licenced entities are, amongst others, "*compliant with its legislative framework and are financially sound*". In September 2007, the enactment of the Insurance Act 2005 introduced new requirements on solvency and investment concentration limits, including limitations on investments in related parties. BA Insurance had been in discussions with the FSC for a contingency plan to, amongst others, improve its solvency position. As such, the FSC was aware of the problem from as early as 2007 or 2008.

[41] The IMF raised major issues with, amongst others, the asset valuation issues and asset concentration in related companies and was also critical of the approval of a banking licence to the BAI Group. In 2008, the IMF noted that "*at the Financial Services Commission (FSC), senior management and most of the Board were replaced following the last election. Such a wholesale turnover in senior management and the Board could raise concerns about the independence of the regulator, and was undoubtedly disruptive to the ongoing operations of an important but young institution*".

[42] In a paper entitled "Investment in Related Parties – Recommendation Report" dated 21 May 2010, BA Insurance stated that it had interpreted the rule as "*a maximum of 10% per company*

97. Given that the issues identified by KPMG had surfaced as early as in FY2010, it is most regrettable that remedial steps were not taken more timeously. If KPMG had taken a stricter stance against BA Insurance in FY2010 (for instance, by reporting the problems it had identified to the FSC), the FSC might have been able to intervene at an earlier stage to prevent further policyholders' funds from being drawn into the Scheme. Instead, BA Insurance had free rein to raise some Rs 35 billion from FY2010 to FY2014 in policyholders' funds to fulfil the funding purposes of the BAI Group and which perpetuated the Scheme.

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and can cumulate up to 100% at a Group level". In 2013, the FSC amended Rule 12 of the Insurance (Long-Term Insurance Business Solvency) Rules 2007 to clarify that the "*aggregate value of investments of an insurer in one or more of its related companies shall not exceed 10 per cent of the assets of the insurer*".

CHAPTER 4: BRAMER PROPERTY FUND

(A) BPF offered high return and "low risk" products to the public

98. As with BA Insurance, BPF raised some Rs 5.4 billion of funds from the public during the Review Period by way of the Scheme. Rs 5.3 billion was raised through the issuance of BPF Preference Shares, and another Rs 54 million was raised through the issuance of Expref Shares. The BPF Preference Shares were particularly popular with investors as they offered a high fixed rate of dividends at "low risk" to investors.

99. During the Review Period, BPF issued a total of six classes of BPF Preference Shares, on the following terms:

(1) the BPF Preference Shares were redeemable at par value, which meant that the holders were not exposed to the changes in the net asset value of BPF and the performance of its underlying investments;

(2) the BPF Preference Shares were redeemable either at maturity or at the option of the holder; and

(3) the holders of BPF Preference Shares were entitled to fixed dividends, within a range of 7.3% to 20.62% per annum (depending on the class of BPF Preference Shares subscribed).

100. In substance, the BPF Preference Shares resembled promissory notes where the holders were entitled to be paid a fixed return, and repaid a fixed sum (the principal investment) at maturity[43].

101. Given the attractive terms of the BPF Preference Shares, it was no surprise that a substantial amount of funds from public investors poured into BPF through investments in BPF Preference Shares.

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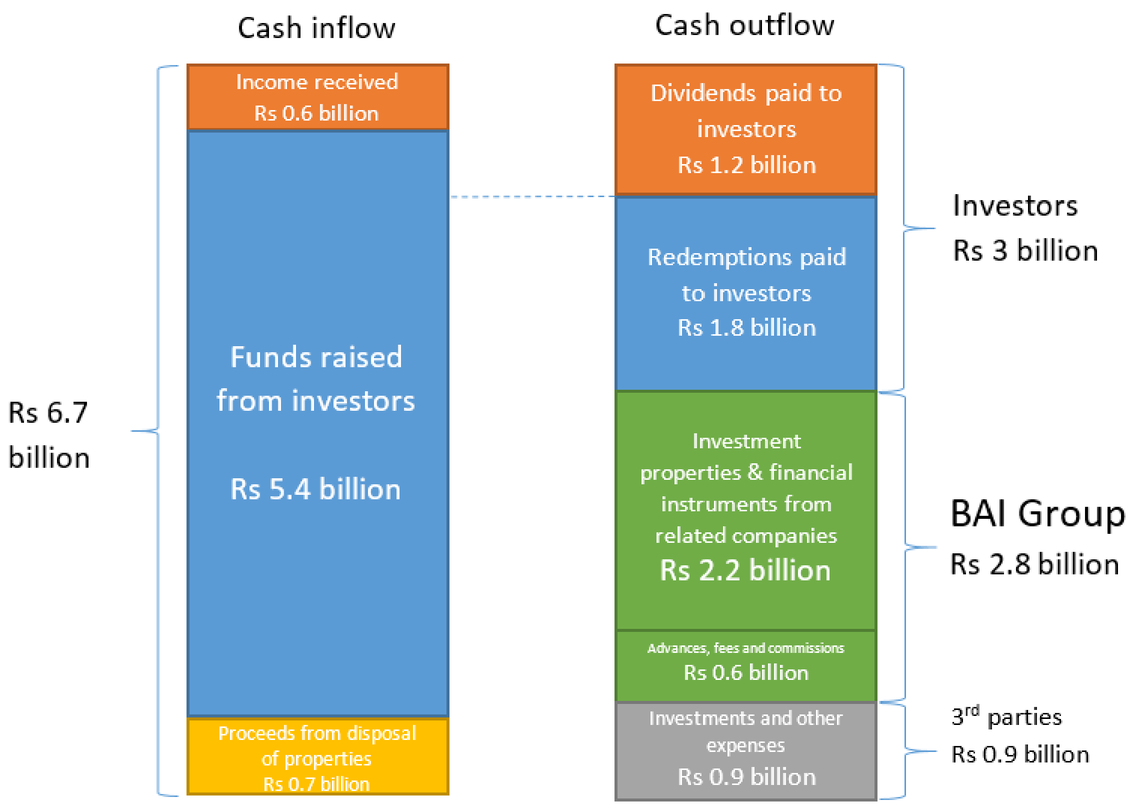
[43] BPF Preference Shares were also redeemable by investors at par before the maturity date, subject to fees and certain restrictions.

(B) Funds raised and spent

102. However, upon closer scrutiny of the cash inflows and outflows of BPF during the Review Period (as set out in the diagram below), it becomes apparent that BPF's business model was in fact unsustainable.

Figure 7



103. As illustrated above, BPF received some Rs 6.7 billion in funds during the Review Period, of which:

(1) the large majority of some Rs 5.4 billion was raised from public investors;

(2) a comparatively underwhelming sum of approximately Rs 0.6 billion was income generated from BPF's investments; and

(3) Rs 0.7 billion was proceeds from the disposal of BPF's properties.

104. BPF spent the Rs 6.7 billion in funds received as follows:

(1) some Rs 3 billion was used to pay off existing investors;

(2) at least some Rs 2.8 billion was channelled to related parties in the form of Related Party Investments; and

(3) some Rs 0.9 billion was invested in third parties and used to pay operating expenses.

105. The cash outflow from BPF to pay investors their fixed returns (some Rs 1.2 billion) exceeded the cash inflow from income (some Rs 0.6 billion). BPF was not generating sufficient cash returns to meet its recurring commitments to investors and to pay operating expenses, resulting in a cash shortfall. To cover the cash shortfall, BPF used funds raised from new investors to pay off existing investors.

106. Apart from the redemptions and dividends, another significant utilisation of funds was the cash outflows to the other related parties within the BAI Group of at least some Rs 2.8 billion[44]. This comprised:

(1) some Rs 2.2 billion directed to purchase investment properties such as Bramer House, and advances disguised in the form of Related Party Investments; and

(2) some Rs 0.6 million as advances and payments for fees and commissions.

107. If the FSC had not intervened to prohibit BPF from raising further funds[45], BPF would have continued its Scheme by raising funds to pay off existing investors and channelling the funds raised to related parties. BPF's Scheme would have continued until it grew to such a scale that BPF would collapse under the weight of its liabilities.

(C) The false image of sustainability, profitability and financial strength

108. In order to maintain the public's confidence in the BPF Preference Shares, BPF had to project an image of sustainability, profitability and financial strength. BPF relied on a number of questionable transactions and accounting practices to obscure its true

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[44] The recoverability of a significant number of BPF's investments in related parties is doubtful, adversely affecting the real value of such assets held by BPF.

[45] See paragraph 121 (1).

financial position. The contrast between BPF's image as portrayed to the public and its real financial status was surreal:

(1) First, during the Review Period, BPF recorded total comprehensive losses[46] of some Rs 193 million. During this period it recognised some Rs 538 million in fair value gains and some Rs 508 million in unrealised interest and dividend income to offset and camouflage these comprehensive losses. If these fair value gains and unrealised interest income and dividend income were excluded from BPF's statements of comprehensive income, BPF's total comprehensive loss during the Review Period would worsen from some Rs 193 million to some Rs 1,239 million (see paragraph 109 below).

Figure 8

Rs millions	**FY2007 to FY2014**
Comprehensive loss	(193)
Less: Fair value gains	(538)
Less: Unrealised interest and dividend income	(508)
Adjusted comprehensive loss	**(1,239)**

(2) Second, BPF accounted for the BPF Preference Shares as part of "net assets attributable to holders of redeemable shares", which gave the impression that BPF was sustainable, profitable and financially strong (see paragraph 111 below).

(3) Third, BPF's revaluation of BMCL Ordinary Shares as at 31 December 2010 was incorrect due to a critical flaw in its valuation methodology. As a result of this incorrect valuation, BPF recorded the book value of the BMCL Ordinary Shares as Rs 465 million, which includes a fair value gain of Rs 65 million. After adjusting for this critical flaw in the valuation methodology, these shares should have been revalued to a negligible amount (see paragraph 112 below).

(4) Fourth, BPF participated in the Bramser Transformation Plan in FY2014 which enabled BPF to avoid revaluing and impairing its exposure to the hospital business (see paragraph 114 below).

[46] Negative comprehensive income.

(5) Fifth, BPF avoided impairing its investment in Klad Bonds and the accrued interest income (see paragraph 117 below).

(6) Sixth, by way of the "BPF Roadmap" submitted to the FSC, BPF gave the impression that it was able to meet its commitments to investors when they fell due (see paragraph 121 below).

(7) Seventh, after BPF was required to cease raising new funds from investors, HCL raised funds from investors and most of these funds were channelled to BPF (see paragraph 131 below).

Fair value gains and unrealised interest and dividends

109. During the Review Period, BPF recognised some Rs 1.1 billion in fair value gains and unrealised interest and dividends which inflated BPF's profitability. These fair value gains and unrealised interest and dividends included questionable gains relating to interest income from Klad which was never received and fair value gains on BMCL Ordinary Shares which arose from a critically flawed valuation methodology. The table below sets out BPF's key assets and the corresponding fair value gains and unrealised interest and dividends:

Figure 9

Key assets as at 31 December 2014	**Book value Rs millions**	**Unrealised gains Rs millions**	**Nature of gains**
Klad Bonds	450	236	accrued interest income
Bramser non-voting ordinary shares	553	96	fair value gains
		233	accrued interest income and accrued dividend income converted into equity
BAHEL and BMCL preference	326	-	
Bramer Bank Ordinary Shares	488	187	fair value gains
Bramer Bank Preference Shares	115	-	
Iframac preference shares	422	39	accrued interest income
Investment properties	1,240	396	fair value gains
Total	**3,594**	**1,187**	

110. If the fair value gains and unrealised interest and dividends were excluded from BPF's statement of comprehensive income, the comprehensive loss during the Review Period would have worsened from some Rs 193 million to some Rs 1,239 million, as illustrated in the table below.

Figure 10

(in Rs millions)	**FY2007**	**FY2008**	**FY2009**	**FY2010**	**FY2011**	**FY2012**	**FY2013**	**FY2014**	**Total**
Income	15	16	90	257	253	218	270	381	1,500
Expenses	(14)	(13)	(38)	(94)	(84)	(116)	(131)	(159)	(649)
Tax	(1)	(1)	(3)	(6)	(9)	(8)	(8)	(6)	(42)
Net Profit	1	3	49	157	160	94	130	217	811
OCI and dividends	50	(104)	(26)	(97)	(214)	109	(327)	(395)	(1,004)
Comprehensive income / (loss)	**51**	**(101)**	**23**	**60**	**(54)**	**203**	**(197)**	**(178)**	**(193)**
Adjustments:									
Less: fair value gains	(54)	103	(27)	(129)	(14)	(375)	11	(53)	(538)
Adjusted comprehensive income / (loss)	**(3)**	**2**	**(4)**	**(69)**	**(68)**	**(172)**	**(186)**	**(231)**	**(731)**
								Less: Unrealised income	(508)
								Adjusted comprehensive loss	**(1,239)**

Misleading presentation of BPF Preference Shares

111. In each of its audited financial statements during the Review Period, BPF presented all three types of its issued shares (BPF Preference Shares, BPF Ordinary Shares and Expref Shares) together as "net assets attributable to holders of redeemable shares". As a result, BPF appeared to be in good financial health as it had net assets of some Rs 3.7 billion attributable to holders of all redeemable shares (as at 31 December 2014). However, this was misleading for the reasons below:

(1) BPF Preference Shares were redeemable at par value, whereas BPF Ordinary Shares and Expref Shares were redeemable at NAV. The BPF Preference Shares should have been presented separately from BPF Ordinary Shares and Expref Shares[47].

[47] The BPF Ordinary Shares and Expref Shares were redeemable at the net asset value of BPF whereas the BPF Preference Shares were redeemable at par value. According to IAS 32 (revised), the BPF Ordinary Shares and Expref Shares should have been classified as "equity", whilst, on the other hand, the BPF Preference Shares should have been classified as "liabilities".

(2) Had BPF presented the BPF Preference Shares accurately, BPF's financial statements would have shown that, in fact, BPF's "net assets attributable to holders of redeemable ordinary and Expref shares" was some Rs 74 million as at 31 December 2014 as opposed to the recorded amount of some Rs 3.7 billion.

BMCL Ordinary Shares

112. In December 2010, BPF acquired 1,248,285 BMCL Ordinary Shares from Bramser for Rs 400 million. There are a number of issues relating to BPF's acquisition and holding of the BMCL Ordinary Shares:

(1) BPF acquired the BMCL Ordinary Shares, and then promptly re-valued its investment from Rs 400 million to Rs 465 million to book a Rs 65 million fair value gain. The valuation methodology used by BPF to value the BMCL Ordinary Shares was flawed and the resulting re-valuation of Rs 465 million was incorrect.

(2) After adjusting BPF's flawed valuation[48], the BMCL Ordinary Shares should have been accorded a *negligible value*. Had BPF impaired its investment in BMCL Ordinary Shares to a negligible value, it would have resulted in BPF becoming balance sheet insolvent as at 31 December 2010.

(3) It is unclear how BDO, the auditors of BPF, satisfied themselves that the valuation methodology adopted by BPF in computing the fair value of its BMCL Ordinary Shares was appropriate.

113. We explain below:

(1) BPF was required to re-value its investment in BMCL Ordinary Shares as at 31 December 2010.

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[48] The valuation was re-performed to take into account the dilutive impact of the "conversion" of some Rs 1.5 billion of intercompany debt. All other parameters and valuation inputs were held constant.

(2) BPF developed a methodology which relied on an external valuation[49] of BAHEL[50] as the key input.

(3) However, BPF's valuation methodology was flawed as it failed to take into account the dilutive impact of some Rs 1.5 billion of inter-company debt owed by BAHEL[51].

(4) BPF's flawed valuation methodology resulted in the over-valuation of BMCL's investment in BAHEL which in turn over-valued BPF's investment in BMCL. As a result of this incorrect valuation, BPF recorded the book value of the BMCL Ordinary Shares as Rs 465 million[52].

(5) Using the same parameters and valuation inputs used by BPF, but adjusting for the dilutive impact of BAHEL's Rs 1.5 billion of inter-company debt, BPF's investment in BMCL Ordinary Shares would have been of negligible value.

(6) Had BPF presented the BPF Preference Shares accurately in its financial statements as well as reflected a negligible value for its holding of BMCL shares, BPF would have been balance sheet insolvent as at 31 December 2010[53].

Bramser Transformation Plan

114. In 2014, stage 1 of the Bramser Transformation Plan was implemented with the stated objective of strengthening the balance sheet of Bramser and "*supporting a high valuation for the hospital business*". It also allowed BPF to avoid impairing the value of its BMCL Ordinary Shares, advances to Bramser, accrued dividends owed by BMCL and accrued interest owned by BAHEL.

115. As part of Stage 1 of the Bramser Transformation Plan, BPF:

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[49] BPF relied on a valuation report prepared by IFCL for the specific purposes of BAHEL.

[50] BMCL's only significant asset was its investment in BAHEL.

[51] IFCL had expressly qualified that the BAHEL valuation report did not take into account a substantial inter-company debt of Rs 1.5 billion owned by BAHEL.

[52] The book value of Rs 465 million included a fair value gain of Rs 65 million.

[53] BPF would have reported that its liabilities exceeded its assets by some Rs 115 million.

(1) converted advances, accrued interest income and accrued dividend income due from Bramser, BMCL and BAHEL into Bramser non-voting ordinary shares; and

(2) "disposed" of its BMCL Ordinary Shares to Bramser and used the proceeds receivable to subscribe for Bramser non-voting ordinary shares.

116. Through the execution of Stage 1 of the Bramser Transformation Plan, BPF avoided impairing some Rs 530 million of BMCL Ordinary Shares and some Rs 437 million of advances, accrued interest income and accrued dividend income.

Klad Bonds

117. In May 2010, Seaton borrowed Rs 450 million by issuing bonds to BPF. BPF purchased these bonds using funds raised from public investors. In the same year, Seaton used these funds to finance the privatisation of BA Investment (which also took place in 2010)[54]. The bonds were subsequently assigned from Seaton to Klad. As at 31 December 2014, the total accrued interest income on the Klad Bonds amounted to some Rs 236 million.

118. It was highly doubtful that the accrued interest income on the Klad Bonds would have been recoverable, given that:

(1) First, Klad did not pay any of the annual interest coupons. Eventually, BPF had to defer receipt of the interest coupons by restructuring the bonds from an annual payment into a bullet payment on the maturity date of 17 May 2017.

(2) Second, based on Klad's financial statements, Klad was clearly in financial difficulty. As at 31 December 2013, Klad reported a net loss amounting to some US$1.5 million (approximately some Rs 45 million). In particular, (a) Klad did not have any cash or marketable securities; and (b) Klad's most significant asset was its investment in Seaton which did not generate significant income.

[54] The Klad Bonds is an example of using BPF's publicly-raised funds to accomplish the BAI Group's own purposes, in this case, to finance the privatisation of BA Investment (see Chapter 7).

119. Notwithstanding that it was unlikely that Klad would have been able to repay the interest coupons on the Klad Bonds, BPF continued to accrue interest income. As at 31 December 2014, the accrued interest income owed by Klad amounted to some Rs 236 million. This continued recognition of interest income allowed BPF to inflate its asset base by some Rs 236 million.

120. If BPF had impaired *only* the accrued interest income owed by Klad and properly presented the BPF Preference Shares (see paragraph 111 above), BPF would have been balance sheet insolvent as at 31 December 2014[55].

BPF Roadmap

121. BPF operated without a licence for several years while it negotiated with the FSC the terms of such a licence. On 28 January 2014, the FSC licensed BPF as a closed-end fund[56] subject to a number of restrictions, including the following:

(1) BPF was not to accept new investors or new subscriptions from existing investors[57];

(2) BPF was not to create any new classes of shares;

(3) BPF was not to make any new investments, loans or advances; and

(4) BPF was to submit a “phasing-out plan” to redeem all BPF Preference Shares over a number of years. This submitted plan was referred to as the “BPF Roadmap”.

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[55] In such an event, BPF would have reported that its liabilities exceeded its assets by some Rs 161 million.

[56] Pursuant to Section 97 of the Securities Act 2005.

[57] Between 1 January 2014 and 27 January 2014, BPF issued new BPF Preference Shares raising some Rs 128 million. However, out of the said Rs 128 million raised, the cash book shows that Rs 7.2 million was received on 30 January 2014. There were no further issuances of BPF Preference Shares from February 2014.

122. On 3 April 2014, the FSC amended the restriction on new investments (see paragraph 121(3) above) to allow BPF to re-invest the proceeds from disposals in liquid assets[58] and added further restrictions on BPF, including:

(1) BPF was not to re-invest the proceeds from disposal into related companies[59]; and

(2) BPF was not to have recourse to bank overdraft facilities.

123. In September 2014, as required by the FSC, BPF submitted the BPF Roadmap to the FSC[60]. The BPF Roadmap was intended to assure the FSC that BPF was able to meet its commitments (chief of which was the redemption by investors of the BPF Preference Shares) as they fell due.

124. The BPF Roadmap forecast that this "phasing-out" would complete by 2020. The BPF Roadmap forecast that between 2014 and 2020, BPF would be able to meet its commitments amounting to some Rs 6.3 billion by raising some Rs 6.3 billion through the sale of assets, recovery of advances and loans, and by relying upon BA Investment for financial support.

125. As such, BPF concluded that it was "*able to meet all financial commitments towards investors, as and when they arise*".

126. However, on closer examination, the BPF Roadmap showed that BPF would not be able to meet its commitments to investors when they fell due and was not sustainable, without the financial support of BA Investment. We explain below:

(1) The forecasts in the BPF Roadmap clearly showed that BPF would, even on their own optimistic assumptions, have a shortfall of some Rs 151 million and

[58] The FSC also stipulated that these liquid assets "*should match the next maturity/dividend payments and redemptions to be disbursed by BPF*".

[59] The FSC clarified that BPF was not to re-invest proceeds in related companies even if the related companies were listed. At the material time, the only group companies in the BAI Group that were listed were Bramer Bank and Global Capital PLC.

[60] BPF initially submitted an earlier version of a phasing out plan to the FSC on 17 April 2014. This was superseded by the BPF Roadmap submitted on 22 September 2014.

would require financial support from BA Investment[61] to cover this shortfall. This shortfall of Rs 151 million appears to be a minimum based on the assumption that BPF would be able to dispose of its investment properties and Related Party Investments at book value[62] and realise all accrued interest income and accrued dividend income (which was unlikely). As such, the total shortfall (that BA Investment would have been relied upon to provide) was likely to be considerably more than the Rs 151 million[63] estimated by BPF.

(2) The BPF Roadmap seemed to assume that BA Investment would have the wherewithal to be able to provide such financial support as BPF may require. No information evidencing BA Investment's financial ability was provided.

127. The BPF Roadmap was also not in accordance with the FSC's express prohibition on re-investing the proceeds from disposal of assets into related companies (see paragraph 122 (1) above). According to the BPF Roadmap, BPF would not receive cash when the preference shares issued by BAHEL matured. Instead, these preference shares and the accumulated dividends would be converted into ordinary shares of BAHEL, thereby effectively re-investing the supposed proceeds from the preference shares back in BAHEL (a related company). On this basis, BPF would have failed to comply with the restrictions imposed by the FSC noted in paragraph 121 (1) above.

128. In spite of the issues with the BPF Roadmap noted in paragraphs 126 and 126 above, to the best of our knowledge, FSC did not raise any issues with BPF or BAML. In this regard, a number of questions may be asked:

(1) Did the FSC critically assess the BPF Roadmap to determine whether BPF was sustainable and whether it would be able to meet its commitments when they fell due (without relying upon support from BA Investment)?

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[61] The BPF Roadmap stated that "*The expected shortfall [in class E] of Rs 140.5 [sic] will be absorbed by the ultimate holding company, BA Investment.*"

[62] Investment properties at book value of some Rs 1.2 billion and Related Party Investments at book value of some Rs 2.4 billion.

[63] In arriving at this shortfall of some Rs 151 million, the BPF Roadmap had assumed that BPF Ordinary Shares and Expref Shares would contribute some Rs 764 million. However, it is unclear how the BPF Ordinary Shares and Expref Shares would be able to contribute some Rs 764 million.

(2) Was the FSC optimistic in believing that merely by placing restrictions on BPF, the BAI Group could be prevented from seeking alternative avenues to raise new funds from investors[64] for their own purposes?

(3) Did the FSC recognise that the BPF Roadmap was not in accordance with the FSC's expressed prohibition on re-investing into related companies by converting preference shares issued by BAHEL, and held by BPF, into ordinary shares of BAHEL?

(4) Did the FSC obtain sufficient comfort that BA Investment would be able to cover any cash shortfalls of BPF?

129. Similarly, in spite of the obvious issues with the BPF Roadmap noted in paragraphs 126 and 127 above, BDO had reviewed the BPF Roadmap and in their letter dated 22 September 2014 stated that "*[b]ased on [their] examination of the evidence supporting the assumptions, nothing has come to [their] attention which causes [them] to believe that these assumptions do not provide a reasonable basis for the forecast. Further, in [their] opinion the forecast is properly prepared on the basis of the assumptions*".

130. It is unclear if BDO had:

(1) critically assessed the BPF Roadmap[65] with underlying assumptions including *inter alia* that:

(a) BPF would be able to recover its investment properties and Related Party Investments at book value; and

(b) BA Investment had the financial wherewithal to cover any shortfalls of BPF; and

[64] In October 2014, HCL started raising funds from investors through private placements of HCL Preference Shares which are similar to BPF Preference Shares. See paragraph 131 below.

[65] According to BAML, BDO prepared the forecasts and models underpinning the BPF Roadmap using source data provided by BPF.

(2) properly assessed the information and underlying assumptions adopted in the BPF Roadmap when determining whether BPF was a going concern during BDO's conduct of the FY2014 audit. We note that BDO issued an unqualified (or "clean") audit opinion on BPF's FY2014 financial statements[66].

HCL

131. BPF was a part of the BAI Group's financial "*Lernaean Hydra*"[67]. In October 2014, after the FSC prohibited BPF from raising new funds, HCL (a thinly capitalised subsidiary of the BAI Group) stepped into BPF's "shoes" and started to raise funds from investors through "private placements" of HCL Preference Shares. Notably, HCL was not regulated by the FSC (unlike BPF):

(1) HCL appointed BAML as its fund manager and raised funds from BAML's clients. BAML was also the fund manager of BPF.

(2) The HCL Preference Shares were very similar to BPF Preference Shares in that both types of preference shares resembled promissory notes where the holders were entitled to be paid a fixed return, and repaid a fixed sum (the principal investment) at maturity.

(3) Within six months from October 2014 to March 2015, HCL raised some Rs 188 million through the issuance of HCL Preference Shares.

132. The funds raised by HCL were channelled to BPF (some Rs 111 million) and Iframac (some Rs 77 million) in the form of "deposits" for the acquisition of real estate from these related parties. Although BPF was no longer raising funds directly from investors, funds raised from investors (by HCL) were channelled to BPF.

133. As HCL continued to raise new funds and channel these funds to BPF, it perpetuated BPF's original Scheme of raising new funds to pay off existing investors (now in both BPF and HCL) and of channelling funds from investors to other related parties. On this

[66] On 7 April 2015, BDO attempted to "recall" their unqualified (clean) audit opinion on BPF's FY2014 audited financial statements, a mere two weeks after issuing the same.

[67] The Lernaean Hydra of Greek mythology possessed many heads and each time one head was lost, it was replaced by two more.

basis, BPF gave the impression that it was able to meet its liabilities as they fell due when, in fact, this would not have been the case without the channelling of funds from HCL[68].

134. BAML, the fund manager of BPF and HCL, was regulated by the FSC[69]. However, to the best of our knowledge, the FSC did not take any action against BAML. It is not clear to us if the FSC had reviewed the activities of BAML in 2014. Had it reviewed such activities, it might have identified the flow of funds from investors to HCL and ultimately to BPF.

(D) Losses incurred by BPF

135. As at 31 December 2014, three months before BPF appointed administrators in April 2015, BPF's books showed some Rs 3.6 billion in investment properties and financial assets, of which almost Rs 2.4 billion were Related Party Investments and a further Rs 0.3 billion related to accrued interest income and accrued dividend income owed by related parties:

Figure 11

Key assets of BPF as at 31 December 2014	Carrying value Rs millions	Accrued interest / dividends Rs millions	Status
Klad Bonds	450	236	Unknown. Klad is incorporated in Bahamas. Its key asset and subsidiary, Seaton, is in administration
Bramser non-voting ordinary shares	553	-	In administration
BAHEL and BMCL preference shares	326	-	In administration
Bramer Bank ordinary shares	488	-	In receivership
Bramer Bank preference shares	115	8	In receivership
Iframac preference shares	422	39	In administration

[68] As at 31 March 2015, HCL reported some Rs 193 million in assets and some Rs 187 million in value of HCL Preference Shares. Of the Rs 193 million of assets, Rs 186 million were deposits for the "acquisition" of real estate in BPF and Iframac. Given that BPF and Iframac have now been placed under administration, it is highly doubtful that HCL will be able to fully recover the deposits paid.

[69] BAML held the following licences which were issued by the FSC: (i) Investment Adviser (Unrestricted) Licence; (ii) Distributions of Financial Products Licence; and (iii) CIS Manager Licence.

Key assets of BPF as at 31 December 2014	Carrying value Rs millions	Accrued interest / dividends Rs millions	Status
Subtotal	**2,354**	**283**	
Bramer House	638	-	Ownership of level 12 is disputed
Bourbon Street building	70	-	
Pridiya Building	53	-	
Terre Rouge	202	-	
Other investment properties	277	-	
Subtotal	**1,240**	**-**	
Grand total	**3,594**	**283**	

Klad Bonds

136. We have explained in paragraph 118 above why it is unlikely that BPF would be able to realise its accrued interest income on the Klad Bonds.

137. It is also highly doubtful that BPF would be able to recover its Rs 450 million investment in the Klad Bonds.

138. The Klad Bonds were scheduled to mature on 17 May 2017 at which time Klad would have been required to make a bullet payment of the principal investment as well as the accrued interest amounting to some Rs 910 million[70].

139. It is questionable that Klad would be able to raise sufficient funds by the maturity date to make full repayment (if any) on the Klad Bonds. Klad does not have any realistic plans to raise funds to meet its commitments. Whilst Klad previously indicated that it planned to dispose of BA Insurance and use the proceeds to facilitate the maturity payment on the Klad bonds, this option is obviously not open to Klad now. Further, given that Klad's most significant asset, Seaton, has been placed in administration, there is no real prospect of Klad obtaining funds to redeem the Klad Bonds, and no real prospect of BPF realising its investment in the same.

[70] BPF estimated that Klad would repay Rs 450 million in principal and Rs 460 million in interest on 17 May 2017.

Bramser non-voting ordinary shares, BMCL Preference Shares and BAHEL Preference Shares

140. BPF invested in the non-voting ordinary shares of Bramser and the preference shares of BAHEL and BMCL. Bramser and BMCL are parent companies of BAHEL. BAHEL carried out the operations of ABH, a hugely unprofitable business in the BAI Group.

141. BPF was unlikely to recover the principal investment and dividends on its shares in Bramser, BAHEL and BMCL. At the material time, BAHEL was suffering from financial difficulty and was incurring operating losses. BAHEL was also not self-sustainable and had to rely on BA Investment to provide financial support to meet its obligations as they fell due. Similarly, Bramser was in financial difficulty and was highly indebted.

142. Further, given that Bramser, BMCL and BAHEL are now in administration, the value of the shares in these companies is likely to be negligible.

Preference shares in Iframac

143. BPF invested Rs 422 million in the preference shares of Iframac (a related party in the car distributorship business). Given that Iframac has now been placed under administration, it is highly doubtful that BPF would be able to recover the amount invested in Iframac.

Ordinary and preference shares in Bramer Bank

144. During the Review Period, BPF invested some Rs 416 million[71] in Bramer Bank by acquiring both ordinary shares and preference shares in Bramer Bank.

145. Given that Bramer Bank has been placed in receivership, BPF's shares in Bramer Bank are likely to be of negligible value.

Others

146. Apart from the financial assets above, BPF also held investment properties such as Bramer House. These amounted to some Rs 1,240 million as at 31 December 2014.

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[71] BPF paid a third party Rs 301 million for the Bramer Bank ordinary shares and subscribed to Rs 115 million of Bramer Bank preference shares.

Due to information constraints, we are unable to determine whether the properties would be realisable at the book value.

(E) Concluding observations

147. As seen above, BPF's Scheme was similar to that of BA Insurance, save that it was on a relatively smaller scale. In this instance, instead of insurance policy premiums, public investors' funds were raised from the issuance of BPF Preference Shares, and then similarly channelled to related parties in the BAI Group.

148. Under the guise of Related Party Investments, BPF channelled at least some Rs 2.8 billion of investors' funds to related parties with no real expectation of recovery. Once the funds were taken out of the hands of BPF, the related parties essentially had a free hand to utilise the investors' funds for their own purposes, generating little utility or benefit to the investors.

149. Notwithstanding that little cash returns were generated on these Related Party Investments, BPF relied on questionable transactions and accounting practices (such as non-cash accounting gains to inflate its asset base) to project an appearance of sustainability, profitability and financial strength.

150. Despite the questionable transactions and accounting practices carried out by BPF, we note that BDO issued unqualified (or "clean") audit opinions on BPF's financial statements during the Review Period. In fact, as recently as 26 March 2015 (less than two weeks before BPF was put into administration), BDO issued an unqualified (or "clean") audit opinion on BPF's FY2014 financial statements[72].

151. It is unclear:

    (1) whether BDO considered if BPF's accounting treatment of BPF Preference Shares complied with international accounting standards which have been adopted in Mauritius;

    (2) how BDO satisfied themselves with the appropriateness of the valuation methodology adopted by BPF in computing the fair value of its BMCL Ordinary

[72] On 7 April 2015, BDO attempted to "recall" their unqualified (clean) audit opinion on BPF's FY2014 audited financial statements, a mere two weeks after issuing the same.

Shares, for the purposes of preparing BPF's audited financial statements for FY2010;

(3) how BDO satisfied themselves of the fair value gains (and non-impairment thereof) of BPF's Related Party Investments adopted in the preparation of BPF's audited financial statements;

(4) how BDO determined that BPF was a going concern; and

(5) whether BDO had properly discharged their primary duty of exercising due care and professional scepticism when performing their audits of BPF's financial statements.

152. As set out in paragraph 128 above, despite there being a number of issues on the BPF Roadmap, to the best of our knowledge, the FSC did not take issue with BPF or BAML in relation to the BPF Roadmap.

CHAPTER 5: BRAMER BANK

(A) Introduction

153. Bramer Bank was regulated under the Banking Act 2004. It had to comply with banking regulations (such as limits on related party exposure) and was under the close scrutiny of BoM. Compared to BA Insurance and BPF, Bramer Bank had significantly less latitude to transfer funds to related parties. Notwithstanding this, Bramer Bank managed to transfer funds to its related parties during the Review Period, as described below. As at 31 December 2014, Bramer Bank faced an exposure of at least [redacted] to related parties, the full recoverability of which was doubtful (even before Bramer Bank's licence was revoked on 2 April 2015).

154. In at least two significant transactions, Bramer Bank extended substantial amounts of funds to its related parties on terms which were, in many ways, contrary to its own interests. These transactions were:

(1) its acquisition of the hire-purchase portfolio of Iframac (retail), and

(2) its "floor plan financing" facilities extended to Iframac (transport), Iframac (retail) and IDC.

155. As will be explained below, Bramer Bank had presented incomplete and inaccurate information on the intended transactions to BoM and it was on that basis that Bramer Bank was able to secure BoM's approval for the transactions. After obtaining BoM's approval, however, Bramer Bank proceeded to structure and execute the deals on materially different terms. These terms, whilst to the benefit of its related parties, exposed Bramer Bank to greater risks.

156. As a result of these transactions, Bramer Bank was heavily exposed to its related parties and was in breach of BoM's regulatory limits on Related Party Exposure. In order to cover up its breach of the said regulatory limits, Bramer Bank conveniently omitted these transactions from its disclosures to BoM on Related Party Exposure. If Bramer Bank had properly complied with its disclosure obligations, it would have been clear that its Related Party Exposure, during the period from June 2012 to 2 April 2015 (when its licence was revoked), was in excess of that allowed by BoM (see paragraphs 189 to 195).

157. We elaborate on the above matters as follows.

(B) Acquisition of Iframac's hire-purchase portfolio

158. In 2013, Bramer Bank entered into the HP Book Transaction with Iframac to acquire:

(1) the HP Portfolio for a consideration of Rs [redacted] billion; and

(2) the "embedded value" in and the exclusive rights to the Future HP Portfolio for a consideration of Rs[redacted] million.

159. The HP Portfolio consisted of receivables arising from hire-purchase agreements between Iframac and its customers.

160. The HP Portfolio was assigned to Bramer Bank in 20 tranches from 2013 to 2015. Under the terms of the agreement to assign the HP Portfolio, Iframac was to continue collecting the funds from the HP Portfolio Debtors, and was to remit the same to Bramer Bank in return for a separate service fee (in addition to the purchase consideration). Bramer Bank paid for the hire-purchase receivables as and when each tranche of the HP Portfolio was assigned. The consideration for each tranche was mostly paid "upfront", and the remaining portion (7% of the consideration payable for that tranche) was retained by Bramer Bank as "deferred consideration". The "deferred consideration" was only to be released to Iframac at the end of the period of collection for that tranche of HP Portfolio and depending on the status of the said collection[73].

161. Bramer Bank had sought and received BoM's approval to acquire Iframac's hire-purchase receivables as part of its banking business. Based on the terms of the transaction as proposed to BoM, Bramer Bank was expected to make a profit.

162. However, various aspects of the HP Book Transaction, including the terms of the transaction and the manner in which it was carried out, were questionable.

163. **First**, whilst Bramer Bank had received approval from BoM to acquire Iframac's hire-purchase receivables, the terms of the transaction that Bramer Bank eventually entered

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[73] The precise amount of "deferred consideration" that Bramer Bank would release to Iframac was based on the percentage of cash that Iframac collected from the HP Portfolio Debtors.

into were substantially different from those Bramer Bank had represented to BoM when seeking approval. Bramer Bank had told BoM that it was going to acquire Rs [redacted] billion of Iframac's hire-purchase receivables for Rs [redacted] billion. When the deal size doubled, such that Bramer Bank would have to spend Rs [redacted] billion to acquire Rs [redacted] billion of Iframac's hire-purchase receivables, BoM was not notified in advance. Eventually, Bramer Bank decided to acquire even more tranches of the hire-purchase receivables and paid a total of Rs [redacted] billion to Iframac[74], again without BoM having been apprised of these developments in advance. As a result, via the acquisition of the HP Portfolio, within eighteen months (by 31 December 2014), Bramer Bank's exposure to related parties dramatically increased by Rs [redacted] billion[75].

164. Further, BoM was not informed by Bramer Bank that the latter was also going to purchase the "embedded value" in and the exclusive rights to the Future HP Portfolio.

165. **Second**, Bramer Bank made payments amounting to Rs [redacted] million to Iframac as "advanced consideration" for the HP Book Transaction before it had received approval from BoM for the deal. Thus, at the time the payments were made, there was every risk that the HP Book Transaction might not ultimately materialise.

166. Bramer Bank stated that the advanced consideration was paid on condition that it had to be promptly refunded[76] if the HP Book Transaction did not materialise by a certain date. However, given the amounts at stake, it is curious that Bramer Bank did not ask for any security, undertaking and/or guarantee to secure its payments of "advanced consideration". Furthermore Bramer Bank should have been aware of the likelihood that Iframac would not refund the "advanced consideration". Bramer Bank had previously made similar payments of "advanced consideration" to Iframac for another transaction relating to the provision of micro-financing facilities. In that instance, Iframac failed to pay back any part of the sum when it was due[77].

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[74] Bramer Bank did not pay this entire sum in cash. Part of the sum was set off against amounts owed to Bramer Bank by Iframac. The total consideration which Bramer Bank paid in cash was some Rs [redacted] billion.

[75] The Rs [redacted] billion is the net difference between the HP Portfolio acquisition price of Rs [redacted] billion and the cash collections already received from Iframac.

[76] Failing which interest would have to be paid.

[77] In July 2012, Bramer Bank made a pre-payment of Rs [redacted] million to Courts (which amalgamated with Iframac) in relation to the micro finance facility. In return, Courts was to direct Rs [redacted] million of micro-finance business to Bramer Bank on a monthly basis until 31 October 2012. As of 29 October 2012, Courts had not fulfilled its contractual obligations, as not a single transaction had been directed to Bramer Bank. By 8 January 2013, only 27

167. **Third**, Bramer Bank paid Rs [redacted] million[78] for the "embedded value" in and the exclusive rights to the Future HP Portfolio. It is questionable how this price[79] was arrived at when it appears that Bramer Bank and Iframac had not even agreed on a specific or minimum amount of business to be given to Bramer Bank in the future.

168. In addition, the payment of Rs [redacted] million by Bramer Bank to Iframac, whilst ostensibly for the "embedded value" in and the exclusive rights to the Future HP Portfolio, might have served an extraneous purpose outside the scope of the HP Book Transaction. The Rs [redacted] million was used as follows:

(1) Rs [redacted] million was retained by Iframac;

(2) Rs [redacted] million was transferred by Iframac to BA Investment on the very same day that Bramer Bank credited the funds to Iframac; and

(3) More critically, on the same day that Iframac received the remaining Rs [redacted] million, the said sum was "round-tripped" back to Bramer Bank as an investment by Iframac in Bramer Bank's debentures[80]. As a result, Bramer Bank inflated its capital by Rs [redacted] million.

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transactions (which amounted to Rs [redacted]) had been directed to Bramer Bank. Due to Iframac's failure to meet its obligations, on 8 January 2013, Bramer Bank demanded that Iframac repay the "pre-payment" amount of Rs [redacted] million with 14% interest. However, no cash repayment was made by Iframac. Instead, Bramer Bank had to set off this sum of Rs [redacted] million against the first "advanced consideration" of Rs [redacted] million in relation to the HP Book Transaction.

[78] This was a significant sum for Bramer Bank. Bramer Bank's profit after tax amounted to Rs [redacted] million for FY2013 and Rs [redacted] million for FY2014. As such, the payment of Rs [redacted] million was more than three times of Bramer Bank's profit after tax.

[79] Bramer Bank could not produce any valuation documentation when requested.

[80] Incidentally, in 2011, Bramer Bank involved another related party, BPF, in another round-tripping transaction which also inflated Bramer Bank's capital. Bramer Bank had advanced Rs [redacted] million to BPF (which was reflected in BPF's bank statements) as a deposit for the acquisition of a property from BPF. One day later, BPF invested Rs [redacted] million in preference shares to be issued by Bramer Bank. Bramer Bank's Board, on 16 March 2011, approved the issuance of No Par Value Non-Voting Redeemable Preference Shares for Rs [redacted] million for the purpose of financing the bank's anticipated growth in the forthcoming years, and proposed that BPF subscribe to the first tranche amounting to Rs [redacted] million. Collectively, the debentures and preference shares contributed to an improvement in Bramer Bank's Tier 2 capital.

169. **Fourth**, Bramer Bank was aware that there was a significant risk that Iframac would not remit the cash that it had collected from the HP Portfolio Debtors to Bramer Bank. Presumably to mitigate such risks, the agreement to assign the HP Portfolio contained provisions allowing Bramer Bank to have recourse against Iframac in the event of non-remittance of the cash collections. However, when Iframac failed to remit the cash collections[81], which was an unsecured exposure for Bramer Bank, Bramer Bank (for reasons unknown to us) did not seek the recourse which it was entitled to under the terms of the said agreement to compel remittance from Iframac. In this regard, Bramer Bank could have, amongst other things, taken "*all such measures it deemed appropriate*" to ensure that the funds Iframac had collected from the HP Portfolio Debtors were promptly remitted to it. Instead, Bramer Bank continued to spend an additional Rs [redacted] billion to purchase additional tranches of hire-purchase debts (see paragraph 163 above).

170. **Fifth**, despite Iframac's non-remittance of its cash collections of the HP Portfolio, Bramer Bank (again for reasons unknown to us) agreed to amend the terms of the transaction to the advantage of Iframac. The parties reduced the percentage of consideration (payable on each tranche of HP Portfolio) which Bramer Bank could retain as "deferred consideration" from 7% to 5%. The "deferred consideration" mechanism was a means of apportioning the risk of possible default by the HP Portfolio Debtors between Bramer Bank and Iframac. Remarkably, Bramer Bank released the 2% of the "deferred consideration" in cash to Iframac, rather than off-set the amount against cash collections owed by Iframac.

171. The way that Bramer Bank structured and executed the HP Book Transaction with Iframac indicates that the practical effect (and, perhaps, the purpose) of the deal was to transfer funds to Iframac, a related party. This can be seen from how Iframac was allowed to transact on favourable terms with Bramer Bank, which would not reasonably have been possible in an arm's length transaction.

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[81] Iframac failed to remit Rs [redacted] million by 31 March 2015.

(C) "Floor plan financing" extended to related parties

172. The other significant transaction we identified was "floor plan financing" extended by MLC (prior to its amalgamation with BHCL and Bramer Bank) and by Bramer Bank (post-amalgamation)[82] to related parties.

173. MLC was an SEM-listed company whose main activity was in providing lease facilities for the financing of vehicles, equipment and other moveable assets. In 2008, MLC ventured into a new type of financing known as "floor plan financing".

174. MLC described "floor plan financing" as a "*short term financing device*" to provide liquidity to a retailer or vendor during the interim period when the assets have been purchased from a manufacturer and are pending sale to the retail customer[83]. To achieve this, MLC would purchase certain inventory items from the vendor and hold title over the inventory, until such time as the vendor had identified its customer. MLC would then sell the inventory back to the vendor at a marked-up price[84], for the vendor to on-sell the same to the retail customer.

175. MLC stated that the purpose of offering "floor plan financing" was to "*secur[e] stronger channel partnerships and therefore diversify the range of services being proposed by a leasing company to the industry players*". However, as it turned out, throughout the entire period from 2008 to 2015, MLC's "floor plan financing" facilities were only provided to related parties.

176. As at 31 December 2014, there was a total amount of Rs [redacted] million outstanding from the "floor plan financing" facilities provided to Iframac. The outstanding amount comprised:

    (1) an amount of Rs [redacted] million due from Iframac (transport division) in relation to a facility involving new cars; and

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[82] From May 2012 onwards (post-amalgamation), Bramer Bank took over the provision of "floor plan financing" to its related parties. For convenience, we will maintain the reference to MLC in this section (to refer to both MLC pre-amalgamation and Bramer Bank post-amalgamation).

[83] Bramer Bank's Annual Report 2012.

[84] Bramer Bank's Annual Report 2012.

(2) an amount of Rs [redacted] million due from Iframac (retail division) in relation to a facility involving retail items such as furniture, appliances, white goods and others.

177. There are a number of questionable aspects in relation to how the "floor plan financing" transactions were carried out. These lead us to believe that the "floor plan financing" facilities were a means for MLC to transfer substantial amounts of funds to its related parties. The transactions were presented as a purchase of inventory assets by MLC. However, these transactions also represented exposure to related parties.

178. **First**, in respect of MLC's "floor plan financing" facilities extended to the two related-party car dealerships, namely, Iframac and IDC, the financing arrangement was curiously structured such that MLC would pay Iframac / IDC the funds for MLC's purchase of the inventory, instead of MLC making the payments directly to the manufacturer. This was even though MLC was of the view that a "floor plan financing" facility was usually one where "*a lender (the Bank) pays a **wholesale seller** of goods **or a manufacturer** for goods that are being sold to the floor plan borrower (a retailer)*"[85].

179. **Second**, there was no restriction on how Iframac and IDC could utilise the funds provided under the "floor plan financing" facility. There were at least two occasions where Iframac channelled substantial amounts of the funds received from MLC to other related parties:

(1) In or around June 2010, Iframac agreed to advance a sum of Rs 50 million, which it would receive from MLC under the "floor plan financing" facility, to BPF. It is not clear what purpose BPF required the sum of Rs 50 million for, and whether this was eventually repaid to Iframac.

(2) On 30 March 2012, MLC deposited Rs [redacted] million into Iframac's Bramer Bank account pursuant to the "floor plan financing" facility. On the same day, Iframac transferred Rs 200 million to BA Investment, which BA Investment used to repay a portion of its bridging loan facility obtained from [redacted].

[85] Bramer Bank's Annual Report 2012.

180. **Third**, even though Iframac repeatedly failed to pay MLC for the buy-back of the vehicles (inventory) from as early as 2011, MLC continued to authorise the release of the vehicles to Iframac, without any penalties whatsoever.

181. Under MLC's "floor plan financing" facility with Iframac, Iframac was required to make payment for the vehicles before MLC would authorise the release of the vehicles from a bonded warehouse to Iframac. However, from as early as 2011, Iframac began to default on its payments. Notwithstanding the non-payment, MLC authorised the release of the vehicles and set off the outstanding payments owing from Iframac against the purchase price to be paid by MLC for the next tranche of purchase. However, this was simply rolling forward the debt owed by Iframac. Further, there was usually a deficit in the amount available for the said set-off. The outstanding amounts due from Iframac thus accrued as accounts receivables on MLC's financial statements.

182. The accounts receivables were not repaid and peaked in 2013 at Rs [redacted] million. Given that the value of the total inventory under the "floor plan financing" facility provided by MLC to Iframac (transport division) only amounted to Rs [redacted] million at that point in time, Rs [redacted] million (which is 143% of the total vehicle inventory) would seem a disproportionately large amount owed to MLC. Notwithstanding this, no meaningful steps appeared to be taken by MLC to recover the accounts receivables. Further, no interest was charged by MLC on these receivables.

183. **Fourth**, MLC showed a curious lack of concern towards its management of the "floor plan financing" facility provided to Iframac for the retail inventory.

184. MLC's auditors, KPMG, highlighted a number of significant deficiencies in MLC's management of the "floor plan financing" facility. The (retail) inventory assets purchased by MLC (and which MLC had title to) were stored in the same warehouse as the rest of the inventory owned by Iframac. There were no proper means of distinguishing between the inventory owned by MLC and that owned by Iframac, given that:

(1) There was "*no proper labelling and separation of the goods*";

(2) There was "*[n]o officer of the Bank…present on site to monitor movements of the Bank's assets*";

(3) MLC "*does not maintain an ageing report for the inventory*"; and

(4) MLC also "*does not conduct physical counts at regular intervals*".

185. As a result of the above deficiencies, KPMG warned that MLC would be exposed to material risks including misappropriation of its inventory, physical deterioration of the inventory, and MLC being confronted with the situation where it could not identify which items in the inventory fell under its ownership.

186. Given the substantial amount of floor plan financing (a total of Rs [redacted] million as at 31 December 2014, out of which Rs [redacted] million pertained to retail inventory), it is curious why MLC did not reasonably exercise due care in protecting its own interests.

187. **Fifth**, MLC, in seeking BoM's approval, made several representations to BoM which were materially different from the actual steps which were eventually adopted in executing the "floor plan financing" transactions:

(1) At the time that BoM granted approval for MLC to enter into the new activity of "floor plan financing", BoM was only informed that MLC would be providing a Rs 100 million "floor plan financing" facility to Iframac (in respect of vehicle inventory) for a period of three months. However, the size of this "floor plan financing" facility increased from Rs 100 million to Rs 250 million, and the duration was extended from three months to over five years. MLC also went on to provide additional facilities to other related parties – such as a Rs 13 million facility to IDC and a Rs 425 million facility to Iframac in relation to retail inventory – without further reference to BoM. In total, MLC offered Rs 688 million of "floor plan financing" facilities to related parties. Had BoM been fully apprised of the extent of the "floor plan financing" facilities being provided to MLC's related parties, BoM might have had greater reservations about approving the new financing activity[86].

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[86] On 13 November 2008, BoM conveyed that it had "*no objection[s]*" for MLC to proceed with the "floor plan financing" facility. However, prior to this, BoM had expressed concerns about MLC's "*excessive aggregate exposure*" to Iframac (a related party), and advised MLC to *"reduce the exposures to commercial sectors of its related parties to a reasonable level*". BoM had also impressed on MLC that the "floor plan financing" facilities should not *"be extended mainly to related parties"*.

(2) MLC represented, in a "Product Profile" presented to BoM, that the "floor plan financing" facility would contain safeguards including a requirement for the vendor / dealer to purchase back the vehicles from MLC at the end of a 90-day period if no customers had been identified. However, this term was not included in the eventual "floor plan financing" facility agreement between MLC and Iframac (transport division).

(3) MLC also provided BoM with a "Schema of the Floor Plan Arrangement" which indicated that MLC would only release the inventory / assets after the vendor had paid MLC for the buy-back of the assets. This would ensure that MLC was secured by the assets in the event it did not receive payment from the vendor. However, as it transpired, even though Iframac (as the vendor) did not pay MLC for the assets / inventory, MLC authorised the release of the assets to the customers and bore the exposure of amounts owing by Iframac to it (see paragraph 181 above).

188. The above indicates that the "floor plan financing" provided by MLC may have been a means to transfer significant amounts of funds to related parties. This can be seen from how the "floor plan financing" transactions were carried out on terms which were in favour of MLC's related parties and which would not reasonably have been expected in an arm's length facility transaction.

(D) Disclosure of related party exposure

189. According to BoM, Bramer Bank's Related Party Exposure[87] should not exceed 60% of its Tier 1 capital[88].

190. In quarterly reports submitted by Bramer Bank to BoM, Bramer Bank failed to fully and accurately disclose its Related Party Exposure. If Bramer Bank had done so, it would have been clear that, since June 2012, Bramer Bank had grossly exceeded the Related Party Exposure limit imposed by BoM.

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[87] As defined under BoM's Guideline on Related Party Transactions.

[88] This refers to Bramer Bank's "credit exposure" to related parties. BoM defines "credit exposure" as "*the provision of or commitment to provide funds or substitute of funds, including leasing facilities, investment in equity, and off-balance sheet funds by a financial institution to a customer or group of closely related customers on a secured or unsecured basis*".

191. Bramer Bank would have breached the Related Party Exposure limit if it had fully and accurately disclosed its Related Party Exposure in accordance with BoM's regulations:

(1) From September 2013, Bramer Bank would have had to deduct Rs [redacted] million from its capital. Rs [redacted] million was the amount that Bramer Bank paid Iframac for the "embedded value" in and the exclusive rights to the Future HP Portfolio, and should have been charged to Bramer Bank's income statement, thereby reducing the bank's capital.

(2) Bramer Bank would have had to increase its disclosure of Related Party Exposure by the amounts that Iframac owed to Bramer Bank as a result of the HP Book Transaction, "floor plan financing" facilities and certain micro-financing facilities[89]. In fact, Bramer Bank had (correctly) treated these amounts owing from Iframac as exposure in its internal credit assessments, but conveniently omitted it from its disclosures to BoM.

(3) Bramer Bank would also have had to increase its Related Party Exposure by the value of the debentures that it "invested" in BA Investment.

192. Taking into account the adjustments referred to in paragraph 191 above, Bramer Bank's Related Party Exposure as at 31 December 2014 would be as follows:

Figure 12

Bramer Bank's exposure to BAI Group

(As at 31 December 2014)

	Related party transaction	**Credit Concentration risk**
Regulatory limit	[redacted]%	[redacted]%
Reported by Bramer Bank	[redacted]%	[redacted]%
After the adjustments	[redacted]%	[redacted]%
Related Party Exposure over both regulatory limits	**Rs [redacted] billion**	

[89] In 2012 and 2013, Bramer Bank executed two micro-financing facility agreements with Iframac, and advanced Rs [redacted] million and Rs [redacted] million respectively as pre-payments.

193. Had the adjustments been made to the calculations of Bramer Bank's Related Party Exposure, Bramer Bank would have exceeded the regulatory limit imposed by BoM, by a shocking [redacted]% of exposure in related party transactions. Similarly, had the adjustments been made to the calculations of Bramer Bank's credit concentration risk[90] exposure, Bramer Bank would have exceeded the regulatory limit imposed by BoM, with [redacted]% in credit concentration risk. However, because of its incomplete and inaccurate disclosures to BoM, Bramer Bank was able to bring itself within the regulatory limits imposed by BoM and therefore escaped the scrutiny of BoM.

194. On this basis, Bramer Bank was able to continue transferring funds raised from the public to its related parties. As at 31 December 2014, Bramer Bank's total exposure[91] to the BAI Group amounted to some Rs[redacted] billion (which represented [redacted]% of Bramer Bank's total assets of Rs [redacted] billion).

195. As such, while Bramer Bank might have played a smaller role in funding the BAI Group (as compared to BA Insurance) because of the stricter regulations imposed by BoM, its role was not an insignificant one.

[90] According to BoM's Guideline to Credit Concentration Risk, "credit concentration risk" measures "*the risk concentration to any single customer or group of closely-related customers with the potential of producing losses which are substantial enough to affect the financial soundness of a financial institution*".

[91] This calculation includes Bramer Bank's identified exposure to companies in the BAI Group and is not limited to the definition of credit exposure in the BoM guideline.

CHAPTER 6: MR. DAWOOD RAWAT

196. As elaborated in the earlier Chapters, BA Insurance, BPF and Bramer Bank channelled significant amounts of publicly-raised funds to related parties within the BAI Group. It seems clear (as will be elaborated in Chapter 7) that a large proportion of the funds channelled out of BA Insurance, BPF and Bramer Bank will not be recoverable from the related parties. Due to time and information constraints, we have not been able to trace how exactly the funds were utilised by the related parties and exactly where (or, more precisely, with whom) the funds have ended up.

197. What we can say is that in the course of our examination, we have identified clear instances of large sums of advances made to Mr. Dawood Rawat and/or his relatives and associates and/or applied for his/their benefit. However, we have been unable to determine (due to the constraints noted herein) if part of the funds (totalling at least some Rs 17.3 billion) channelled out of BA Insurance, BPF and Bramer Bank to the related parties in the BAI Group were ultimately paid to Mr. Dawood Rawat and his relatives and associates and applied for their benefit.

198. In this Chapter, we will highlight several instances of Mr. Dawood Rawat's possible involvement in questionable dealings of the BAI Group.

(A) Funds extended to Mr. Dawood Rawat and/or his relatives and associates

199. As at April 2015, at least some Rs 1 billion appears to have been channelled by various companies in the BAI Group to Mr. Dawood Rawat and/or his relatives and associates and/or applied for his/their benefit, as can be seen from the table below:

Figure 13

Entity	Description of transactions / balances	Period	Rs millions
BA Investment (a)	Net advances to a current account titled the "Chairman Current Account"* Notably, BA Investment's management accounts show that the advances under this current account included items such as payments for the purchase	2008 – 2014	387#

Entity		Description of transactions / balances	Period	Rs millions
		of property (Rs 16.9 million), purchase of vehicle (Rs 5.3 million) and payment for a boat for Mr. Dawood Rawat (Rs 3.0 million) and purchase of furniture (Rs 0.8 million). Advances with no meaningful description of their purpose amounted to a staggering Rs 577 million.		
	(b)	Net advances to Seaton from BA Investment In 2010, the then-listed BA Investment was privatised and became wholly owned by Seaton, which was in turn 85.8% owned by Klad. Seaton's main function was as an investment holding company of BA Investment, and it had no operations. As such, advances / payments applied for the benefit of Seaton were likely to have been for the (ultimate) benefit of Mr. Dawood Rawat, his family members and associates[92].	2010 – 2014	280#
	(c)	Technical fees expenses to BA Holding BA Holding is also a subsidiary of Klad[93], but it is not within the BAI Group. It served as a holding company but had no operations. There is a strong presumption that the "technical fees" paid by BA Investment to BA Holding would have been applied towards (ultimate) payments to Mr. Dawood Rawat and/or applied for his benefit. In fact, in one quarter, the technical fee due to BA	2009 – 2014	98^

[92] From FY2011 to FY2014, director's fees, salaries and reimbursement of expenses of some Rs 118 million was paid to Mr. Dawood Rawat and his family members, and some Rs 90 million was used to buy property for Seaton.

[93] BA Holding became a subsidiary of Klad from 2010. Prior to 2010, Mr. Dawood Rawat had a controlling interest in BA Holding.

Entity	Description of transactions / balances	Period	Rs millions
	Holding was paid by BA Investment *directly* to Mr. Dawood Rawat[94]. Interestingly, the management accounts of BA Investment also appear to account for transactions with the "Chairman Current Account" and with BA Holding under the same account code.		
[redacted]	[redacted]	[redacted]	[redacted]
	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
Grand Total			**930**

Notes:

* [redacted]

Outstanding as at 31 December 2014.

^ Technical fees expenses were recognised over the period 2009 to 2014.

@ Outstanding as at 31 March 2015.

+ Outstanding as at June 2015.

200. In addition, the BAI Group channelled at least some Rs 360 million to Yukondale and some Rs 81 million to Logandale. As explained in paragraphs 201 and 212, these companies were owned by an alleged relative of Mr. Dawood Rawat.

[94] The payment was made in respect of the fee for the fourth quarter of 2014.

(B) Interposing Logandale in transactions for the benefit of Mr. Dawood Rawat and BA Insurance

201. Logandale is a company closely related to the BAI Group. Mr. Dawood Rawat's alleged relative, [redacted][95], was a former shareholder and is a current director of Logandale. Logandale's current shareholder and director was an employee of BA Insurance. However, Logandale did not formally belong to the BAI Group. Logandale did not operate any business of its own and its transactions appear to have been made only to further the interests of the BAI Group and Mr. Dawood Rawat.

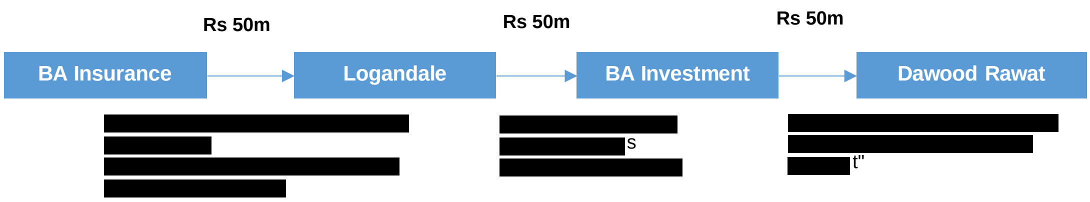
202. In this regard, we have found an instance in which Logandale played a role in masking the excess related party exposure which BA Insurance had to BA Investment.

203. In late 2013, BA Insurance was specifically instructed by the FSC not to remit any more funds to related parties. Perhaps to circumvent the FSC's instructions, Logandale (which was not disclosed as a "related party" in BA Insurance's accounts) was used as a conduit to channel funds from BA Insurance to BA Investment.

204. A series of back-to-back transactions took place on 14 November 2014:

Figure 14

Transactions on 14 November 2014



(1) BA Insurance remitted Rs 50 million to Logandale, purportedly for the purpose of subscribing to the Logandale Debentures;

(2) Rs 50 million was transferred from Logandale to BA Investment's account; and

(3) Rs 50 million was paid to Mr. Dawood Rawat.

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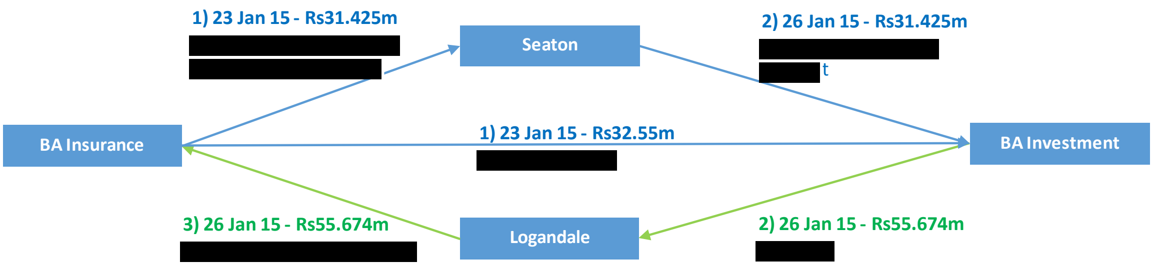
[95] [redacted] was the sole shareholder and director of Logandale from 15 November 2007 to 27 February 2009.

205. These transactions resulted in the channelling of funds to Mr. Dawood Rawat. There remained, however, the issue of Rs 50 million payable by Logandale on the Logandale Debentures. Given that Logandale had no underlying business, it needed funds to repay the Rs 50 million owed on the Logandale Debentures.

206. Thus, another series of transactions was orchestrated to facilitate Logandale's "repayment" to BA Insurance. When the transactions are taken together, they reveal that BA Insurance was in effect funding the redemption of the Logandale Debentures it held. Through an acquisition of properties from Seaton (for some Rs 31 million) and purported payment of consultancy fees to BA Investment (of some Rs 32 million), the end result was that Logandale finally received advances of some Rs 55 million[96] from BA Investment to redeem the Logandale Debentures, as depicted below:

Figure 15



207. These transactions, taken together, appear to be part of a scheme which had questionable commercial purpose for any of the entities involved. Perhaps the real purpose was for BA Insurance to channel Rs 50 million to BA Investment and finally to Mr. Dawood Rawat (with Logandale used as a vehicle in the entire process), when the FSC had precisely instructed BA Insurance not to increase its exposure to related parties.

(C) Logandale's possible role in boosting the market value of BA Insurance's listed investments

208. As elaborated below, shortly after incorporation Logandale received funds from the BAI Group and transferred much of these funds to a stockbroker in Malta. A more recent document shows that Logandale held shares in Global Capital PLC. The factual matrix

[96] Rs 55 million comprises the Rs 50 million Logandale Debentures and a further Rs 5 million subscription of debentures in Logandale by BA Insurance on 24 December 2014.

suggests that the BAI Group may have used Logandale to buy shares in Global Capital in December 2007. The share price of Global Capital PLC rose significantly in December 2007. A result of the increase in the share price of Global Capital PLC in December 2007 was that BA Insurance recorded a profit rather than a loss for FY2007.

209. The facts are:

(1) Logandale was incorporated[97] in November 2007. It opened its bank account with [redacted] in November 2007.

(2) In November and December 2007, the BAI Group channelled some Rs 67 million to Logandale's bank account with [redacted]. Of this amount, some Rs 20 million was channelled from BA Insurance.

(3) In November and December 2007, Logandale remitted some Rs 61 million to Global Capital Financial Management (in Malta).

(4) A statement of Logandale's investment holdings dated 19 December 2014 shows that it owned shares in Global Capital PLC.

(5) From 1 to 31 December 2007, Global Capital PLC's share price soared by 34% from EUR 4.18 to EUR 5.60.

(6) BA Insurance reported a profit before tax of some Rs 254 million in FY2007.

210. The increase in the price of Global Capital PLC shares in December 2007 increased the market value of BA Insurance's holding[98] in Global Capital PLC by some Rs 378 million. If the share price of Global Capital PLC had not increased from the market price at 1 December 2007, then BA Insurance would have reported a *loss* before tax of some Rs 124 million for FY2007 (rather than the actual reported profit before tax of some Rs 254 million).

[97] Logandale was incorporated in Mauritius and owned by [redacted].

[98] BA Insurance held 6,399,092 shares in Global Capital PLC, representing some 48% of the issued shares of Global Capital PLC at 31 December 2007.

211. In the absence of additional relevant information, we are unable to fully ascertain the *bona fides* (or lack thereof) of Logandale's dealings in shares of Global Capital PLC[99]. The relevant authorities could conduct further investigations into the share dealings of Logandale if any.

212. There was also a similar transaction carried out involving Yukondale. [redacted] is also the owner and director of Yukondale[100]. In 2006 and 2007, the BAI Group provided Yukondale with funds of some Rs 42 million[101]. In November and December 2007, Yukondale remitted some Rs 15 million to a stockbroker in Malta[102]. Yukondale may have acquired shares in Global Capital PLC in December 2007 but, as with the possible share acquisitions by Logandale, we are unable to fully ascertain the *bona fides* (or otherwise) of share acquisitions by Yukondale, if any.

[99] This would, amongst other things, require access to Logandale's broker statements and transaction records from Global Capital Financial Management.

[100] Yukondale was incorporated on 10 March 2006 with [redacted] as sole shareholder and director. From 2006 to 2009, Yukondale was a holding company of other companies engaged in the printing business. From December 2009, Yukondale was also directly engaged in the printing business.

[101] In the period from July 2006 to March 2015, some Rs 360 million was provided by the BAI Group to Yukondale. In its financial statements for FY2013, Yukondale reported total liabilities exceeding total assets by some Rs 230 million.

[102] Rizzo, Farrugia & Co (Stockbrokers) Ltd.

CHAPTER 7: SUMMARY

(A) The privatisation of BA Investment

213. It was clear that by April 2010[103], the BAI Group's management including Mr. Dawood Rawat[104] knew that the BAI Group was in a very precarious financial position. Mr. [redacted], the BAI Group's Chief Operating Officer, in his "Transformation Strategy" paper noted:

> "*Based on the current trends of performances of the subsidiaries, it is estimated that the Group will show **losses of over MUR 2.5bn by end of 2010** unless prompt and effective measures laid out in this report are taken. Furthermore, the Group will require funds of around MUR 4 bn to service its commitments and support its operations and dependent subsidiaries. The Group **cannot afford to report such losses** and we will therefore take bold measures to restructure and promptly turnaround this state of affairs.*"
>
> (emphasis in bold added)

214. We believe that it may be due to this knowledge that in May 2010, Seaton commenced the privatisation of BA Investment. Seaton borrowed Rs 450 million from BPF (which BPF had raised from the public) to fund the privatisation of BA Investment. The privatisation was completed by October 2010, and BA Investment became a wholly-owned subsidiary of Seaton. BA Investment was subsequently de-listed from SEM, and with this, avoided the need to comply with SEM's stricter and higher standards of disclosure of financial information for a listed entity.

215. Mr. [redacted]'s forecast of the BAI Group's deteriorating financial performance was prescient, except that the BAI Group performed worse than Mr. [redacted]'s forecast and recorded a consolidated loss of some Rs 3.3 billion in FY2010 (see paragraph 4 above) rather than the forecast loss of "over Rs 2.5 billion". These losses caused the BAI

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[103] Based on Mr. [redacted]'s "Transformation Strategy" paper dated June 2010 which we understand was drafted in April 2010.

[104] Mr. [redacted]'s "Transformation Strategy" paper was specifically prepared for the Group Chairman (Mr. Dawood Rawat), the Group Vice-Chairman (Mr. [redacted] and Group President & CEO (Mr. [redacted]).

Group to become "***balance sheet insolvent***" in FY2010 as its liabilities exceeded its assets by some Rs 1.2 billion ***as at 31 December 2010.***

216. In addition to the privatisation of BA Investment, the BAI Group was also exploring ways to avoid having to publish in Mauritius any consolidated financial statements which would show the true extent of the BAI Group's deteriorating financial position. During an Audit Committee meeting of 27 March 2012, there was a discussion with the auditors, KPMG, on whether the preparation of consolidated financial statements could be done at the level of Klad, a Bahamas entity:

> "*Mr.* [redacted] *[KPMG audit partner] advised that [BA Insurance] would be exempted from preparing consolidated accounts in the eventuality consolidation was done at the level of BA Investment, Seaton Investment or Klad Investment ("Klad"). Commenting on the proposal for* ***consolidation of financial statements at the level of Klad****,* ***Mr.*** [redacted] ***advised that same would not be appropriate, given Klad was a non-regulated entity incorporated in Bahamas*** *whereby, preparation and filing of financial statements was not required by law and* ***would, as such, not satisfy the IAS' criteria for "financial statements to be available for public use****".*
>
> *Following discussions, members commented whether the possibility of having the financial statements of Klad audited and filed with the authorities in Bahamas would then satisfy the criteria for "financial statements to be available for public use" and* ***requested the External Auditors [i.e. KPMG] to liaise with their technical team in South Africa regarding the acceptability of the above proposal and revert to the Committee****.*"
>
> (emphasis in bold added)

217. Consolidated financial statements of the Klad Group were eventually prepared, but it was not until 17 September 2014 that KPMG signed off on Klad's FY2010[105], FY2011 and FY2012 audited consolidated financial statements. The FY2010 and FY2011 audited consolidated financial statements of Klad were unqualified by KPMG. The

[105] The finalisation of the audited financial statements for FY2010 was some 44 months after 31 December 2010. As a result, these audited consolidated financial statements were not readily available, and not available in a timely manner, to stakeholders and regulators.

FY2012 audited consolidated financial statements of Klad were similarly not qualified by KPMG except that KPMG drew attention to the following:

> "*Note 38 to the financial statements which indicates that the* ***Group incurred a loss of USD [119 million]*** *[or Rs 3.4 billion equivalent]* ***for the year ended 31 December 2012*** *and as of that date, the* ***total liabilities exceeded its total assets by USD [302 million]*** *[or Rs 9.2 billion equivalent]. The note 38 states that these conditions, along with other matters, indicate the* ***existence of a material uncertainty which may cast significant doubt on the subsidiaries ability to continue as a going concerns*** *[sic]. Our opinion in [sic] not qualified in respect of this matter.*"
>
> (emphasis in bold added)

218. In spite of the above information, KPMG and BDO both continued to sign off unqualified (or "clean") audit opinions for various BAI Group companies, including BA Insurance, BPF and Bramer Bank.

219. Had it not been for the privatisation of BA Investment by Seaton in 2010 and the subsequent delisting of BA Investment from SEM, BA Investment, as a company listed on SEM, would have had to file its audited consolidated financial statements with the relevant authorities in Mauritius on a timely basis. This would have revealed to the public in Mauritius the loss of some Rs 3.3 billion for FY2010 and that BA Investment's liabilities exceeded its assets by some Rs 1.2 billion as at 31 December 2010.

(B) Could the BAI Group's activities have been stopped?

220. In perpetuating the Schemes to advance its own agenda, the BAI Group undertook many questionable transactions and accounting practices, some of which were picked up by its auditors as early as 2010, and by the regulators as early as 2008.

221. Did the KPMG and BDO (respectively the auditors of BA Insurance and BPF) fully discharge their fiduciary and/or statutory duties? Perhaps if they had qualified their audit opinions, this would have curtailed the ability of BA Insurance and BPF to raise fresh funds from the public.

222. Did (and to what extent) the FSC follow up on its instructions to BA Insurance to cease making Related Party Investments, and exercise its power to adequately review the relevant books and records? Did it realise that BA Insurance persisted with the Related Party Investments? Should further steps have been taken?

223. Did the professionals engaged by the respective businesses, including valuers and actuaries, robustly challenge the management's representations and assurances? Did the management seek to use these professionals' work as a cover for the businesses to facilitate and perpetuate their Schemes and agenda?

224. Did the independent directors, the executive directors and senior management of BA Insurance, BPF and Bramer Bank fully discharge their fiduciary duties and act in the best interests of the respective businesses and stakeholders? If they had played a greater role, perhaps the questionable transactions and accounting practices would not have been implemented.

(C) How were the publicly-raised funds used?

225. Chapters 3 and 4 illustrated how BA Insurance and BPF raised a total of some **Rs 51 billion** from the public during the Review Period:

(1) BA Insurance raised a total of some **Rs 45.8 billion** from the insurance premiums; and

(2) BPF raised a total of some **Rs 5.4 billion** from its issuance of preference shares.

226. The funds raised by BA Insurance and BPF, together with the funds of Bramer Bank, were used for various purposes, including:

(1) operating expenses of more than **Rs 4.5 billion**;

(2) Related Party Investments of at least some **Rs 17.3 billion**[106]; and

---

[106] Including Rs 3.6 billion of BA Insurance's Related Party Investments involved in the 31 December 2009 round-tripping transactions and Rs [redacted] billion of Bramer Bank's overall exposure to the BAI Group in December 2014.

(3) payments to investors and policyholders of more than **Rs 34 billion**.

227. Whilst some of the funds outflows were attributable to genuine expenses and liabilities incurred in the course of ordinary business, the fact that a substantial amount of funds were channelled from BA Insurance, BPF and Bramer Bank to their related parties raised a red flag.

228. At least some Rs 17.3 billion which was channelled to entities within the BAI Group was largely used to fulfil the BAI Group's own purposes, and resulted in little or no benefit to the insurance policyholders and/or investors. In particular, the funds were mainly used as follows[107]:

(1) to fund the operating expenses and financial commitments of BA Investment (of more than **Rs 5 billion**);

(2) to fund the construction and operation of the loss-making hospital business (BAHEL/Bramser) (of more than **Rs 4 billion**);

(3) to fund other unprofitable subsidiaries in the BAI Group, in particular, the construction business (Ireko) and Iframac (of more than **Rs 5 billion**);

(4) to raise the share capital and/or capital adequacy ratio of Bramer Bank and its predecessors to meet their regulatory requirements and/or operational needs (of more than **Rs 1 billion**); and

(5) channelled for the benefit of Mr. Dawood Rawat and/or his relatives and associates and/or applied for his/their benefit (of at least some **Rs 1 billion**).

229. Given the constraints of time and limits to our access to, and/or the availability of, certain records, documents and personnel, we have been unable to ascertain if additional payments were made by the related parties (which had received at least some Rs 17.3 billion from BA Insurance, BPF and Bramer Bank) with the objective of benefiting members of the Rawat family and associates.

---

[107] All figures cited in this paragraph are preliminary estimates.

(D) Related Party Investments may largely be unrecoverable

230. We set out below the significant assets reflected on BA Insurance's, BPF's and Bramer Bank's financial statements and their corresponding book and estimated realisable values:

Figure 16

S/N		Asset	Book value (Rs millions)	Estimated realisable value[108] (Rs millions)
1.	Shares			
	(a)	Acre, BGSL and ILSAT ordinary shares	6,595	In Special Administration – perhaps 500 or less
	(b)	BAHEL and BMCL preference shares	326	In Special Administration – unlikely of any value
	(c)	Bramer Bank ordinary shares	488	In Receivership – unlikely of any value
	(d)	Bramer Bank preference shares	115	In Receivership – unlikely of any value
	(e)	Bramser non-voting ordinary shares	553	In Special Administration – unlikely of any value
	(f)	Iframac preference shares	422	In Special Administration – unlikely of any value
	(g)	BA Kenya ordinary shares	5,059	3,500
2.	Bonds – Klad		450	Bahamas company – ability to repay unknown
3.	Debentures			
	(a)	Bramer Bank	251	In Receivership – unlikely of any value
	(b)	BramCorp subsidiaries	4,804	Underlying asset is shares in Bramer Bank; unlikely of any value
	(c)	BA Investment	450	In Special Administration – unlikely of any value

[108] This is a desktop analysis with preliminary estimates.

S/N	Asset		Book value (Rs millions)	Estimated realisable value[108] (Rs millions)
4.	Real properties			
	(a)	Hospital property	2,502	2,200 or less (depending on the split of value for Hospital business)
	(b)	Bramer House	638	Depending on valuation
	(c)	Bourbon St, LP	123	Depending on valuation
	(d)	Terre Rouge	202	Depending on valuation
	(e)	Other properties	277	Depending on valuation
5.	Current account receivables of BA Insurance			
	(a)	BA Investment	3,123	In Special Administration – unlikely of any value as its key subsidiaries are under Special Administration
	(b)	Greensboro	315	In Special Administration – 315 or less (depending on the recoverability of Diplomat Gardens properties)
6.	Account receivables from Iframac (Bramer Bank)		2,486	Depending on the recoverability of the hire-purchase contracts and inventories
7.	Credit facilities extended by Bramer Bank to BAI Group companies		568	In Special Administration – unlikely of any value
	Total		**29,747**	**Perhaps between 7,000 and 9,500**

(E) Closing observations

231. The BAI Group sold various “safe” financial products with high returns to raise funds from the public. As a result, BA Insurance and BPF managed to raise a total of some Rs 51 billion during the Review Period.

232. In order to be able to continuously attract more investors to raise more funds from the public, the BAI Group projected an image of being sustainable, profitable and financially

strong by executing questionable transactions and adopting questionable accounting practices, which resulted in substantial fair value gains of some Rs 12 billion and accrued interest income of some Rs 5 billion being recorded in the relevant financial statements of BA Insurance and BPF during the Review Period. In fact, the BAI Group was "***balance sheet insolvent***" by 2010. This was concealed from the investing public by the privatisation of BA Investment in 2010, which allowed BA Investment to avoid the publication of its FY2010 consolidated financial statements in Mauritius. Otherwise, BA Investment's consolidated financial statements would have revealed that the BAI Group had made a loss of some Rs 3.3 billion for FY2010, and that at 31 December 2010, its liabilities exceeded its assets by some Rs 1.2 billion.

233. Of some Rs 51 billion raised from the public during the Review Period, some Rs 34 billion was utilised to repay the returns (at promised high rates) and maturing principal amounts due to their investors. At least some Rs 17.3 billion was channelled to the BAI Group via the Related Party Investments, which were, in fact, largely unprofitable and generated little or no cash returns. However, these Related Party Investments provided the BAI Group with an opportunity to execute questionable transactions and adopt questionable accounting practices resulting in the substantial fair value gains of some Rs 12 billion and accrued interest income of some Rs 5 billion being recorded in the relevant financial statements of BA Insurance and BPF during the Review Period. On this basis, the public was misled for several years and continued to pour funds into the BAI Group.

234. It is noteworthy that even Bramer Bank had entered into at least two significant transactions which, while they were clearly of benefit to the related parties, were (again) of little or no commercial benefit to itself (or its depositors).

235. The BAI Group was accumulating losses which left it with liabilities that exceeded assets by some Rs 1.2 billion as at 31 December 2010 and some Rs 12 billion as at 31 December 2013. Through its various schemes, the BAI Group was able to conceal its massive losses[109] and obscure its true financial position. However, the accumulated deficit continued to grow such that in 2015, ***the BAI Group inevitably collapsed under the weight of its huge losses and the unsustainable liabilities***.

[109] Through avoiding the public disclosure in Mauritius of its consolidated financial statements subsequent to the privatisation of BA Investment.

SCHEDULE 1: AMBIT OF THE REPORT AND LIMITATIONS

1. The ambit of this report is confined to our review of a select number of transactions and activities in relation to the BAI Group, in particular, matters relating to (1) BA Insurance, (2) BPF, and (3) Bramer Bank. Our examination of the other BAI Group companies was only in so far as they were directly relevant to the aforesaid transactions and activities. This report should therefore not be taken to be conclusive and exhaustive of our findings on each and every one of the BAI Group companies.

2. This report is prepared solely based on certain of the documents and/or information available to us at the time of our examination. Should any additional documents and/or information be made available to us at any time thereafter and/or if any such material circumstances arise such that documents and/or information (whether previously available to us or not) are made relevant, we reserve our rights to vary, update and/or supplement any part of this report.

3. This report is further subject to the following limitations (to be read in conjunction with the Note on page i):

   (1) Our findings, observations, inferences and/or conclusions contained in this report are based only on our review of certain documents and/or information which have been made available to us. We did not have complete access to the documents or data which were relevant to this report. For example, our review of the Audit Committee and Board meetings of some of the key BAI Group companies uncovered just two presentations made by the auditors (each by KPMG to the BA Insurance Audit Committee, the first on 29 March 2011 and the second on 25 March 2013) even though it appears from contemporaneous correspondence and minutes that there were other presentations made by KPMG.

   (2) We have relied on the accuracy and/or completeness of all information and documents which were made available to us during our examination and which are relied on in this report. We have assumed documents and copies thereof are genuine and were produced on the dates ascribed to them. We have not conducted any independent verification and/or corroboration of the documents and we do not assume any responsibility and make no representations with respect to the authenticity and/or completeness of the documents.

(3) We do not possess the relevant statutory coercive powers to compel the production of documents and/or information (even if these were potentially relevant to the issues in this report). In this regard, we are unable to come to a conclusive view on matters relating to these issues. If necessary, any matters and questions that may arise from our work and/or findings in this report may instead form the subject of a separate review and/or inquiry.

(4) We note that there may be other statutory authorities, including the Central Criminal Investigation Division and the Independent Commission Against Corruption, which are carrying out investigations into the same matters that form the subject of our examination. The results of these investigations, including the interviews they conducted, were, however, not made available to us.

(5) We have not conducted any interviews and we have no statutory coercive powers to do so. We have also not performed the Maxwellisation process. We were therefore unable to carry out an in-depth assessment of the conduct of the relevant directors, officers and staff members of the BAI Group. Further, this also means that where findings, observations, inferences, conclusions and/or observations have been made against individuals and/or entities in this report, they have not been given the opportunity to comment on, or respond to, the said findings or inferences.

(6) For the avoidance of doubt, the work done in our examination (and contained in this report) does not in any way constitute an audit (whether external or internal) or a review performed in accordance with the International Standards of Accounting, International Standards on Review Engagements or the International Standards for the Professional Practice of Internal Auditing and/or any other existing auditing and reviewing standards. Accordingly, we make no assurance and/or representation in this regard.

(7) We have prepared this report solely for the use of BoM. We therefore do not make any representation to any other individual or entity as to the accuracy of the contents of this report and accept no liability whatsoever arising out of or in connection with the same. We do not assume any responsibility or liability

for losses incurred by any party as a result of the circulation, publication, reproduction or use of this report.

(8) Any and all of nTan’s work product including but not limited to all information, analyses, notes, working papers, drafts, memoranda or other documents relating to and/or arising out of the preparation of this report shall belong to and be the sole and exclusive property of nTan and shall not, save with the prior written approval of nTan, be disclosed in any forum.

(9) Additionally, any and all of nTan’s work product constitutes confidential information which shall under no circumstances be used, disclosed, copied, modified, reproduced, or incorporated in any form including in any publications and/or derivative works, except with nTan’s prior written approval.

(10) The disclosure of this report, where authorised by the Bank of Mauritius, shall in no way constitute any waiver of nTan’s rights of privilege over this report, nTan’s work product, any communications and/or correspondence related to the preparation of this report, whether generated by nTan and/or exchanged between nTan and any other third parties.

SCHEDULE 2: DEFINITIONS

"**ABH**" means the Apollo Bramwell Hospital;

"**ABH Property**" means the property and the building of ABH;

"**Acre**" means Acre Services Ltd;

"**Administrator**" refers to Mr. Sattar Hajee Abdoula who was appointed by the directors of BA Investment and some 30 other companies in the BAI Group;

"**BA Holding**" means British American Holdings Limited (incorporated in the Bahamas);

"**BA Insurance**" means BAI Co (Mtius) Ltd;

"**BA Investment**" means British American Investment Co. (Mtius) Ltd;

"**BA Kenya**" means British-American Investments Company (Kenya) Limited;

"**BA Treasury**" means BA Treasury Co Ltd;

"**BAHEL**" means British American Hospitals Enterprise Ltd;

"**BAI Group**" means BA Investment and its subsidiaries and recognised related companies (until 2 May 2010) and Seaton and its subsidiaries and recognised related companies (from 2 May 2010);

"BAML" means Bramer Asset Management Limited;

"Banking Act 2004" means the Banking Act 2004 in Mauritius;

[redacted];

"**BDO**" means BDO & Co, the auditors of BPF during the Review Period;

"**BHCL**" means Bramer Holding Co Ltd;

"**BMCL**" means BAI Medical Centres Ltd;

"**BMCL Ordinary Shares**" means ordinary shares issued by BMCL;

"**BoM**" means the Bank of Mauritius;

"**Board**" means the board of directors;

"**BPF**" means Bramer Property Fund Ltd, formerly known as Provident Real Estate Fund Ltd;

"**BPF Ordinary Shares**" means ordinary shares issued by BPF which were redeemable at the net asset value of BPF;

"**BPF Preference Shares**" means preference shares issued by BPF which were redeemable at par value;

"**BramCorp subsidiaries**" means BramCorp SH I Ltd, BramCorp SH II Ltd, BramCorp SH III Ltd and BramCorp SH IV Ltd;

"**Bramer Bank**" means Bramer Banking Corporation Ltd;

"**Bramer Corporation**" means Bramer Corporation Limited;

"**Bramer Securities**" means Bramer Securities Ltd, now known as Bramer Capital Brokers Ltd**;**

"**Bramser**" means BSGL;

"**Bramser Transformation Plan**" means the plan containing recommendations of the Steering Committee (set up by the Board of BA Investment) to address problems that BPF was facing, and to align the strategies of BA Investment, Bramser and BPF;

"**Broll Indian Ocean**" means Broll Indian Ocean Limited;

"**BSGL**" means Bramser Services Group Ltd (formerly known as B.A.S Holding Co. Ltd);

"**CCRPS**" means cumulative convertible redeemable preference shares;

"CEO" means Chief Executive Officer;

"Chairman" refers to Mr. Dawood Rawat;

"Conservators" refers to Mr. André Bonieux and Mr. Mushtaq Oosman of PricewaterhouseCoopers who were appointed by the FSC under the Insurance Act 2005 to BA Insurance from 3 April 2015;

"Courts" means Courts (Mauritius) Limited;

"Diplomat Gardens" means certain properties located at Floreal, Mauritius;

"**Expref Shares**" means preference shares issued by BPF which were redeemable at the net asset value of BPF;

"**FSC** means the Financial Services Commission, Mauritius;

"**FSC Rules**" means the Rules and Regulations made by the FSC**;**

"Future HP Portfolio" means Iframac's future hire-purchase receivables generated over 20 years from 2015;

"**FY**" means financial year;

"**Global Capital Financial Management**" means GlobalCapital Financial Management Ltd.;

"**Global Capital PLC**" means GlobalCapital p.l.c.;

"**Government**" means the government of Mauritius;

"**Greensboro**" means Greensboro Promoters Ltd;

"**HCL**" means Hennessy Capital Limited;

"**HCL Preference Shares**" means preference shares issued by HCL which were redeemable at par value;

"**HP Book Transaction**" means collectively the 20 "Sale and Assignment of Debt Agreements" that Bramer Bank entered into with Iframac from 2013 to 2015;

"**HP Portfolio**" means Iframac's portfolio of hire-purchase receivables up till 31 December 2014 (amounting to Rs [redacted] billion);

"**HP Portfolio Debtors**" means the hire-purchase debtors of the HP Portfolio;

"IAS" means the International Accounting Standards issued by the International Accounting Standards Board (and its predecessor);

"**ICFL**" means Infinite Corporate Finance Limited;

"**IDC**" means International Dealership Company Limited;

"**Iframac**" means Iframac Limited;

"**IFRS**" means the International Financial Reporting Standards issued by the International Accounting Standards Board;

"**ILSAT**" means ILSAT Ltd;

"**IMF**" means the International Monetary Fund;

"Insurance Act 2005" means the Insurance Act 2005 in Mauritius and / or the subsequent rules and regulations made in the following years;

"Insurance (Long-Term Insurance Business Solvency) Rules 2007" means the FSC Rules made by the Financial Services Commission under sections 23 and 130 of the Insurance Act 2005 in Mauritius;

"Ireko" means Ireko Holdings Ltd and its subsidiaries;

"**KES**" is the currency unit for the Kenyan Shilling;

"**Klad**" means Klad Investment Corporation Ltd;

"**Klad Bonds**" means the bonds issued by Seaton and purchased by BPF in 2010, which were assigned from Seaton to Klad;

"**Klad Group**" means the group of companies comprising Klad and its subsidiaries;

"**KPMG**" means the KPMG partnership registered in Mauritius, the auditor of BA Insurance;

"**KPMG's FY2010 Presentation**" means the presentation on 29 March 2011 following KPMG's audit of BA Insurance's financial statements for the financial year ended 31 December 2010;

"**KPMG's FY2012 Presentation**" means the presentation on 25 March 2013 following KPMG's audit of BA Insurance's financial statements for the financial year ended 31 December 2012;

"**KPMG's FY2010 and FY2012 Presentations**" means the KPMG's FY2010 Presentation and the KPMG's FY2012 Presentation;

"**Logandale**" means Logandale Co. Ltd;

"Logandale Debentures" means the debentures issued by Logandale and purchased by BA Insurance;

[redacted]

"**MLC**" means The Mauritius Leasing Company Limited;

"**MUR**" means Mauritian Rupee;

"**Mr.**[redacted] refers to Mr.[redacted]

"**Ms** [redacted]" refers to Ms [redacted];

"**NAV**" means net asset value;

"**Receivers**" refers to Mr. André Bonieux and Mr. Mushtaq Oosman of PricewaterhouseCoopers who were appointed on 2 April 2015 by the Board of BoM under Section 75 of the Banking Act 2004 for Bramer Bank;

"Related Party Exposure" means Bramer Bank's credit exposure to related parties;

"Related Party Investments" means the funds in the form of advances, bonds, debentures, preference shares, ordinary shares, real estate properties or other assets channelled into related parties within the BAI Group as "investments" during the Review Period;

"**Review Period**" means the period from 1 January 2007 to 31 December 2014;

"**Rs**" means Mauritian Rupee;

[redacted]

"**Schemes**" means the Ponzi-like schemes operated by BA Insurance and BPF for the larger part of the Review Period;

"**Seaton**" means Seaton Investment Ltd;

"**Sebastopol Properties**" means land including a chalet with amenities thereon situated at L'Etoile Sebastopol and land situated at Petit Paquet, Montagne Blanche;

"**Securities Act 2005**" means the Securities Act 2005 in Mauritius;

"**SEM**" means the Stock Exchange of Mauritius;

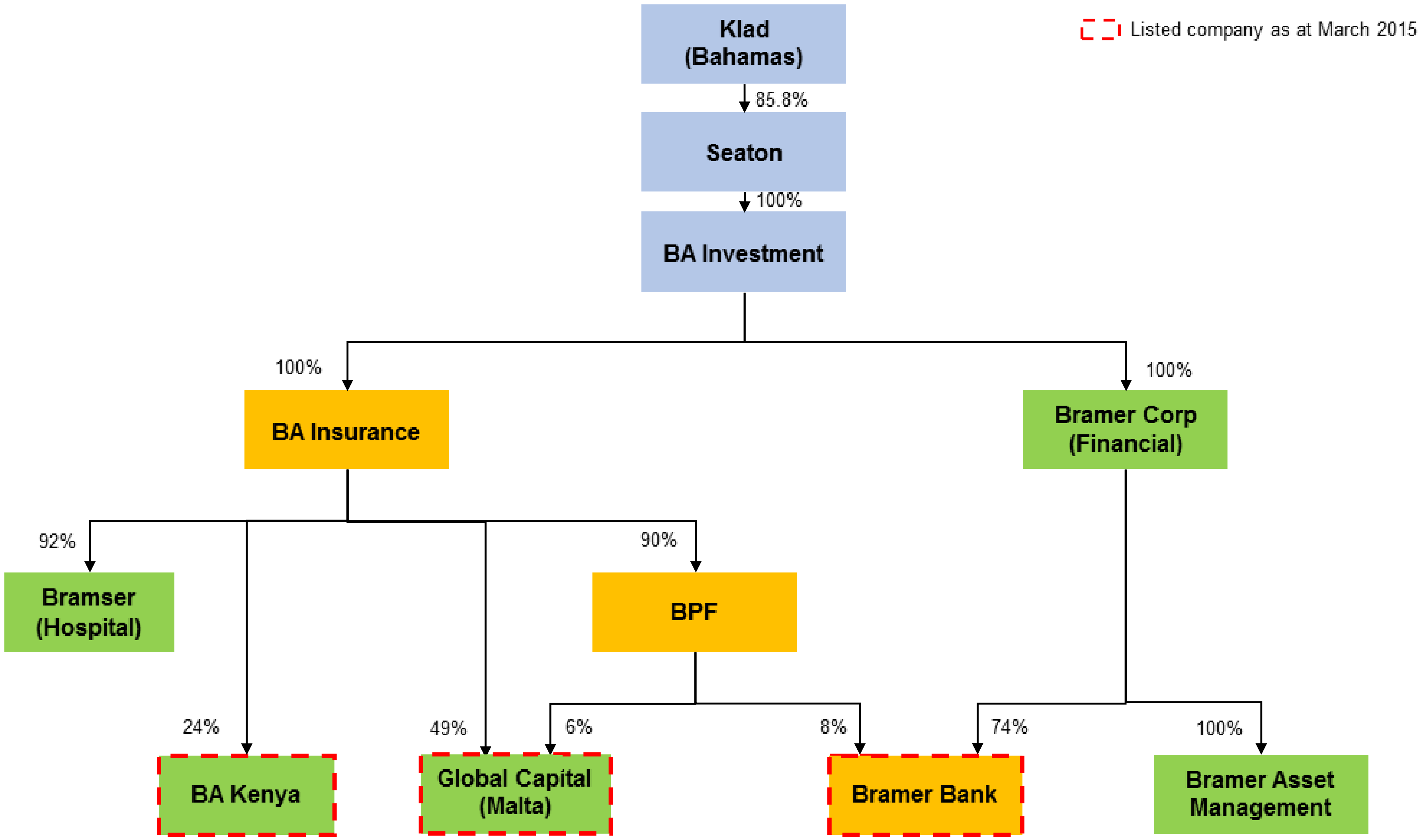
"**Special Administrators**" refers to Mr. Mushtaq Oosman and Mr. Yogesh Rai Basgeet of PricewaterhouseCoopers who were appointed by the FSC under the Insurance Act 2005 for BA Insurance and any of its related companies from 1 May 2015 until termination date;

"**Super Bank**" means Bramer Bank post-amalgamation with BHCL and MLC;

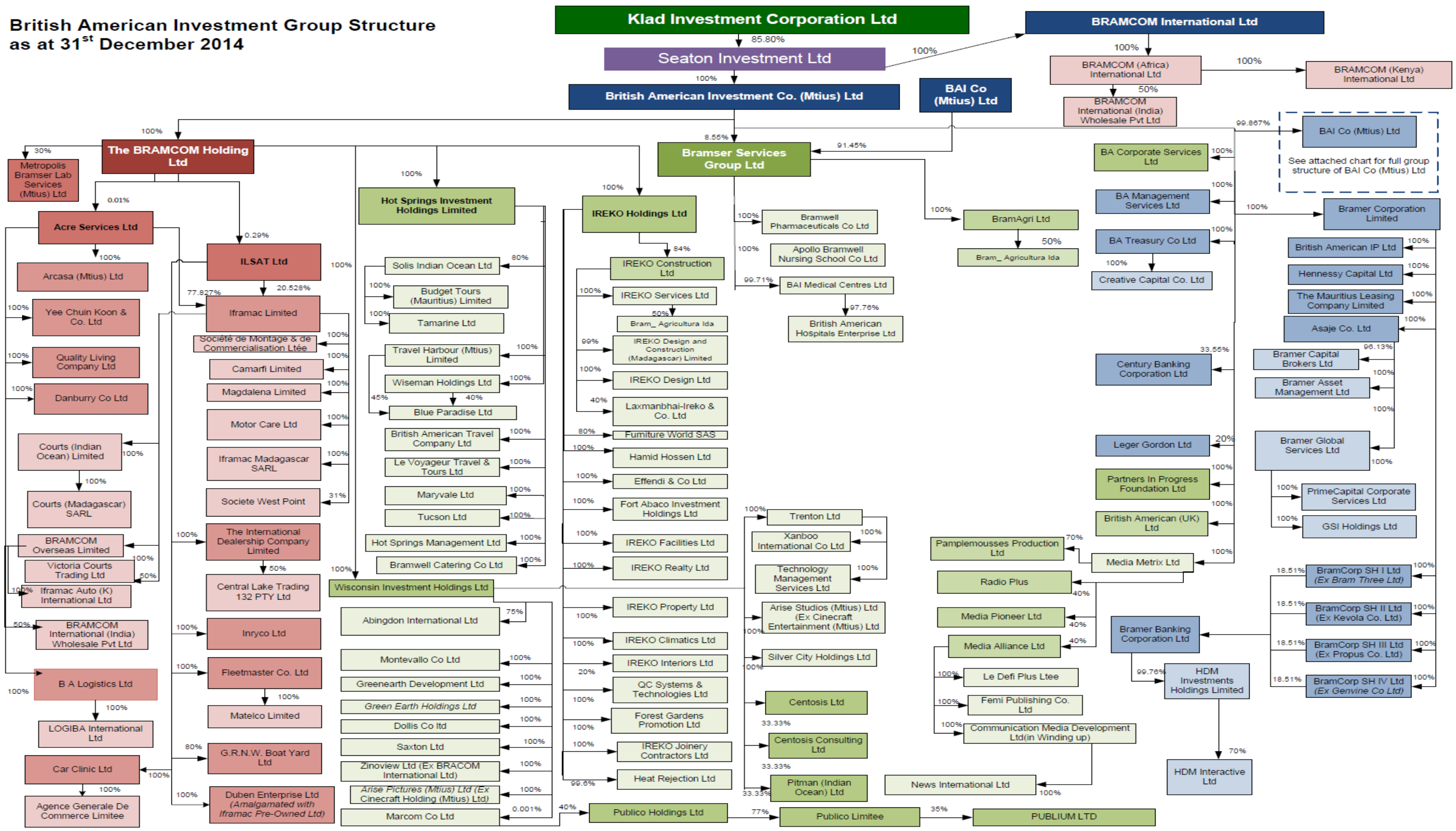
"**Super Cash Back Gold**" means the single premium life insurance policy offered by BA Insurance; and

"**Yukondale**" means Yukondale Company Ltd.

SCHEDULE 3A: BAI GROUP STRUCTURE (SIMPLIFIED)

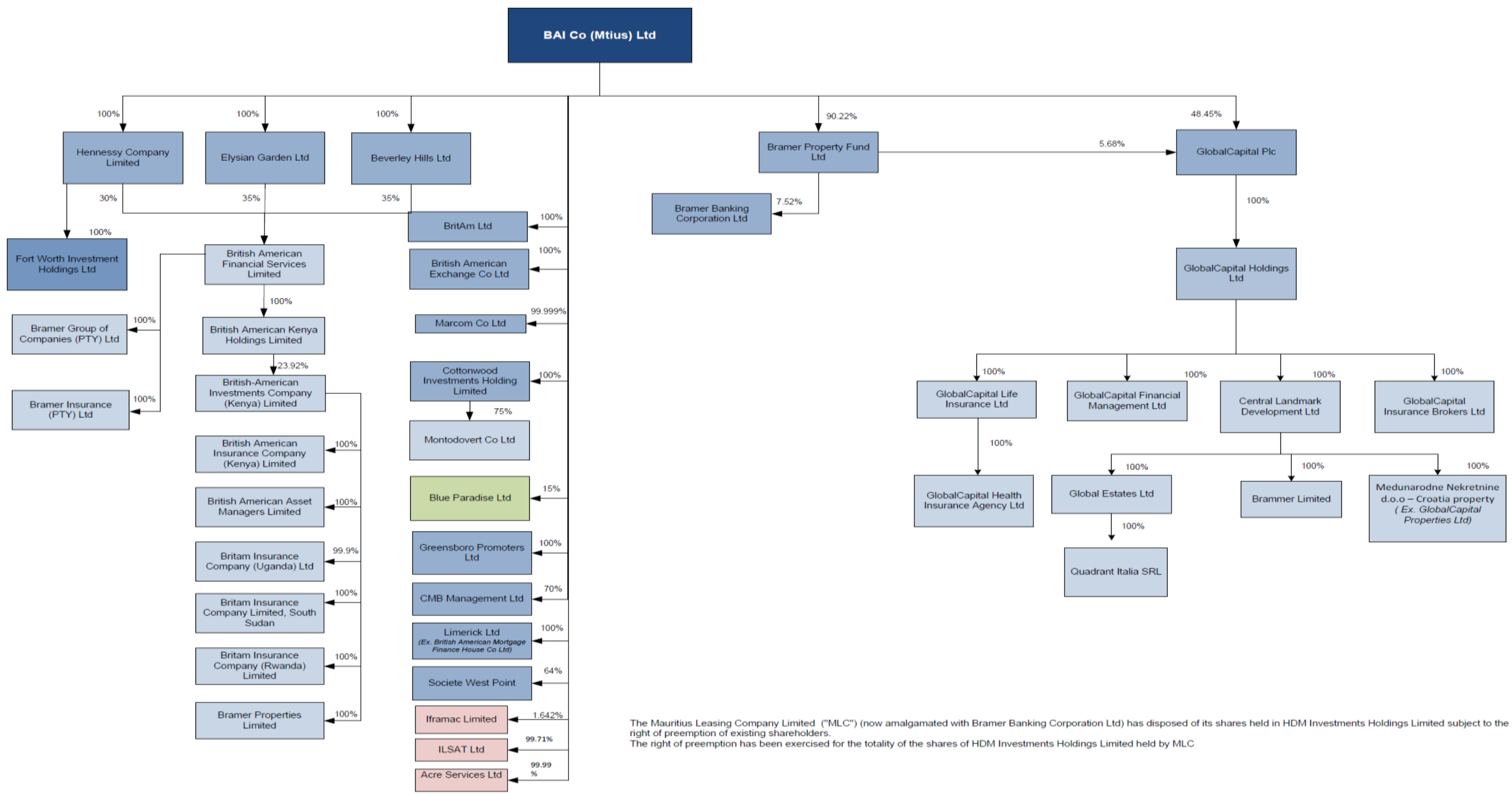


SCHEDULE 3B: BAI GROUP STRUCTURE
(AS PROVIDED BY BAI GROUP SECRETARY)



SCHEDULE 3C: BA INSURANCE GROUP STRUCTURE
(AS PROVIDED BY BAI GROUP SECRETARY)

BAI Co (Mtius) Ltd
Group Structure as at 31st December 2014



The Mauritius Leasing Company Limited ("MLC") (now amalgamated with Bramer Banking Corporation Ltd) has disposed of its shares held in HDM Investments Holdings Limited subject to the right of preemption of existing shareholders.
The right of preemption has been exercised for the totality of the shares of HDM Investments Holdings Limited held by MLC

SCHEDULE 4: CHRONOLOGY

Date	Description
6 Jun 1920	British-American Company Limited founded in the Bahamas
Dec 1969	British-American commences operations in Mauritius
Jan 1970	Mr. Dawood Rawat joins company in Mauritius
14 Dec 1988	BA Insurance incorporated in Mauritius
1990	Mr. Dawood Rawat leads 'management buyout' of 'worldwide' group
23 Sep 1991	BA Investment incorporated in Mauritius
1992	IPO of BA Insurance on SEM
1992	Mr. Dawood Rawat acquires a controlling interest in BA Insurance
1993	Mr. Dawood Rawat creates a trust, Carmina Trust, with himself as beneficiary
Sep 1994	Klad incorporated in the Bahamas
1997	Acquisition of MLC and British American Insurance in Kenya and Malta
2000	BA Insurance acquired 79.2% ordinary shareholding of Provident Real Estate Fund Ltd from Jade Group of Companies
July 2003	In restructuring of group, BA Insurance becomes subsidiary of BA Investment
2003	BA Investment listed on SEM
2004	Acquisition of Iframac Ltd, vehicle dealership. Also Marcom Co Ltd and Duben Ltd
27 Feb 2004	IPO of MLC on SEM (pre IPO, BA Investment owned 75%; post IPO 56.25%)
2004	Mr. Dawood Rawat ceases to be a director of BA Insurance
2005	Acquisition of Courts – household goods retail chain
2005	BA Kenya acquires stake in Equity Bank (Kenya)
28 Sep 2007	The Insurance Act 2005 introduces new requirements on long term insurers in terms of solvency, and investment concentration limits, including limitations on investments in related parties
28 Sep 2007	Securities Act 2005 enacted. The Act's objective was to set out a regulatory framework to regulate, *inter alia,* Authorised Mutual Funds. Existing Authorised Mutual Funds were given up to 5 years to comply with the Act
Nov and Dec 2007	Logandale remitted some Rs 61 million to Global Capital Financial Management (Malta) for the acquisition of shares
1 Apr 2008	BA Investment acquires 100% of South East Asia Bank and renames it Bramer Banking Corporation Ltd

Date	Description
1 Oct 2008	BPF Class B launched - First series of preference shares with no equity features
1 Dec 2008	BPF Class M launched
10 Jul 2009	MLC ventures into a new type of financing with Iframac, known as “floor plan financing”
7 Aug 2009	BA Investment sells 49% of Bramer Bank to Domasol Limited for approximately Rs 735 million
18 Aug 2009	Opening of ABH, a 200-bed tertiary care hospital
12 Nov 2009	Seaton incorporated in Mauritius
31 Dec 2009	BA Investment "round trips" Rs 3.6 billion into BA Insurance and back to BA Investment via BAI Group companies
May 2010	BPF purchases Rs 450 million bonds from Seaton
2 May 2010	Seaton acquires control of BA Investment by acquisition of shares from BA Holding and Mr. Dawood Rawat
14 May 2010	Seaton offers to buy out minority (30%) of BA Investment
Oct 2010	Seaton acquires 100% of BA Investment which is then de-listed by SEM on 8 October
Dec 2010	Domasol Limited sells its 49% shareholding in Bramer Bank to BA Insurance (25%) and BPF (24%) for Rs 615 million
Dec 2010	BPF acquires BMCL Ordinary Shares from Bramser for Rs 400 million
Dec 2010	Class M matures and fully redeemed
2011	Construction of Bramer House in Ebène
2011	FSC instructs BA Insurance to stop further investments in its related entities
2 May 2012	Bramer Bank merged with MLC and BHCL
4 May 2012	BA Insurance disposes of its shareholding in Bramer Bank to the BramCorp subsidiaries and receives as consideration some Rs 6.3 billion of debentures issued by the BramCorp subsidiaries to BA Insurance
9 May 2012	Bramer Bank publicly listed on SEM
27 Sep 2012	"Grace period" of 5 years for compliance of Securities Act 2005 ends. BPF’s request for extension was not approved
28 Dec 2012	Courts amalgamates with Iframac

Date	Description
20 May 2013	An amendment to Rule 12 of Insurance (Long Term Insurance Business Solvency) Rules 2007 was introduced – aggregate value of investments of an insurer in one or more of its related companies shall not exceed 10%; effective date is 1 July 2013 and insurers need to comply by 31 December 2014
19 July 2013	Bramer Bank enters into the HP book transactions with Iframac
August 2013	BA Insurance acquires the ABH Property from BAHEL for Rs 2.5 billion
6 Dec 2013	FSC required BA Insurance to stop further investments in related entities in order not to increase its exposure in related party investments
8 Jan 2014	BPF approved as a "Closed End Fund" with certain conditions
21 Mar 2014	FSC agreed to BA Insurance's proposed extension to the deadline to reduce exposure in related parties to 31 December 2016 but maintained that the related party exposure is to be reduced to 10% by 31 December 2016. FSC also requires BA Insurance to cease any further investments in related entities and submit certain documents including, *inter alia*, quarterly updates on its action plan and half yearly reports from its auditor detailing where new premiums have been invested and also certifying monies have not been invested in related companies
17 Sep 2014	KPMG signs off on the FY2010, FY2011 and FY2012 audited consolidated financial statements of Klad. The FY2010 and FY2011 consolidated financial statements were unqualified while the FY2012 consolidated financial statements were unqualified with an Emphasis of Matter on “significant doubt on the subsidiaries ability to continue as going concerns”
22 Sep 2014	BPF's final "Phasing Out Plan" submitted to the FSC
14 Nov 2014	BA Insurance remits Rs 50 million to Logandale. Logandale transfers Rs 50 million to BA Investment. BA Investment transfers Rs 50 million to Mr. Dawood Rawat
2014	Stage 1 of the Bramser Transformation Plan is implemented with the stated objective of strengthening the balance sheet of Bramser and “supporting a high valuation for the hospital business”
18 Mar 2015	KPMG issues an unqualified (or “clean”) audit opinion on the FY2014 financial statements of Bramer Bank
26 Mar 2015	BDO issues an unqualified (or “clean”) audit opinion on the FY2014 financial statements of BPF
31 Mar 2015	KPMG issues an unqualified (or “clean”) audit opinion on the FY2014 financial statements of BA Insurance
2 Apr 2015	BoM revokes the licence of Bramer Bank under Section 17 of the Banking Act 2004
3 Apr 2015	FSC Mauritius, pursuant to section 106 of the Insurance Act 2005, appointed Mr. Andre Bonieux and Mr. Mushtaq Oosman of PwC as Conservators of BA Insurance