



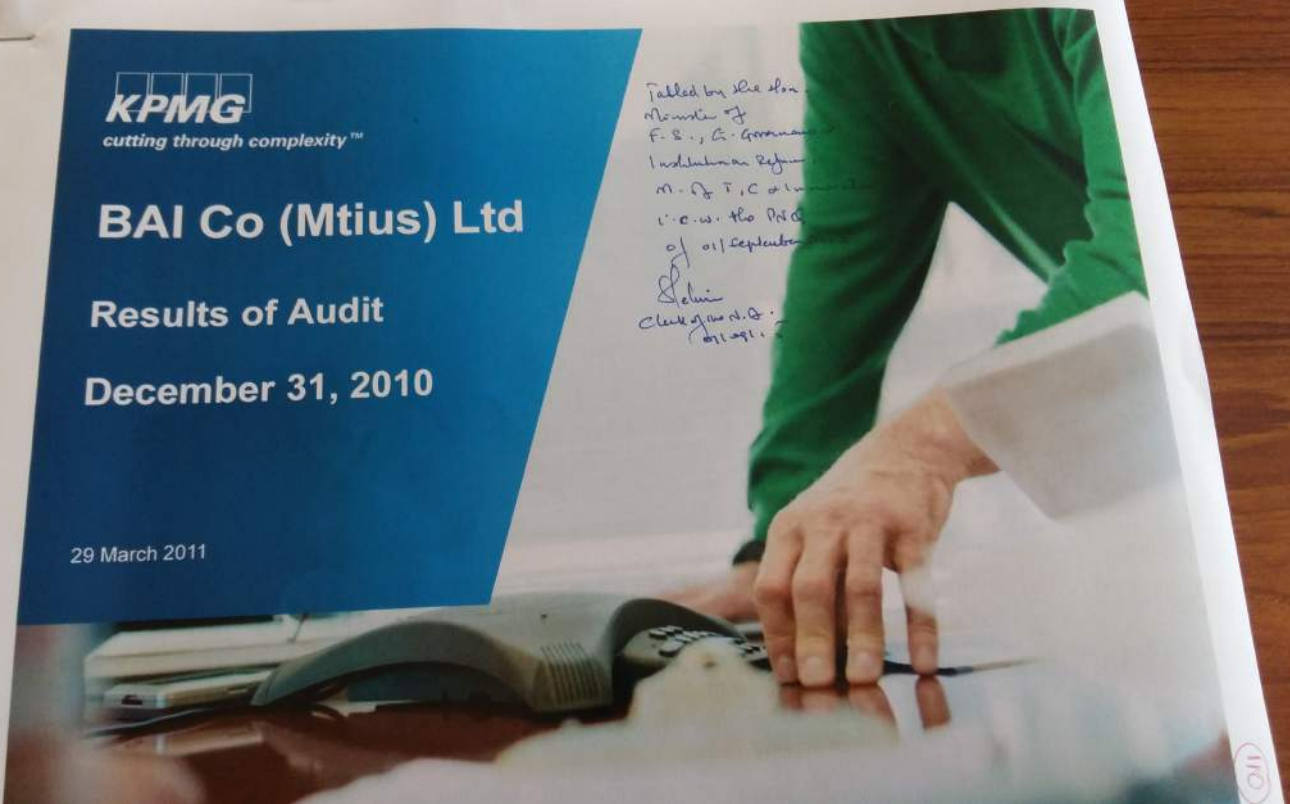
BAI Co (Mtius) Ltd

Results of Audit

December 31, 2010

29 March 2011

Tabled by the Hon
Member of
F.S., G. Government
Institutional Reform
M. of T, C & I
i.e. the P.O.
of 01 September
John
Clerk of the H.Q.
of 1991.



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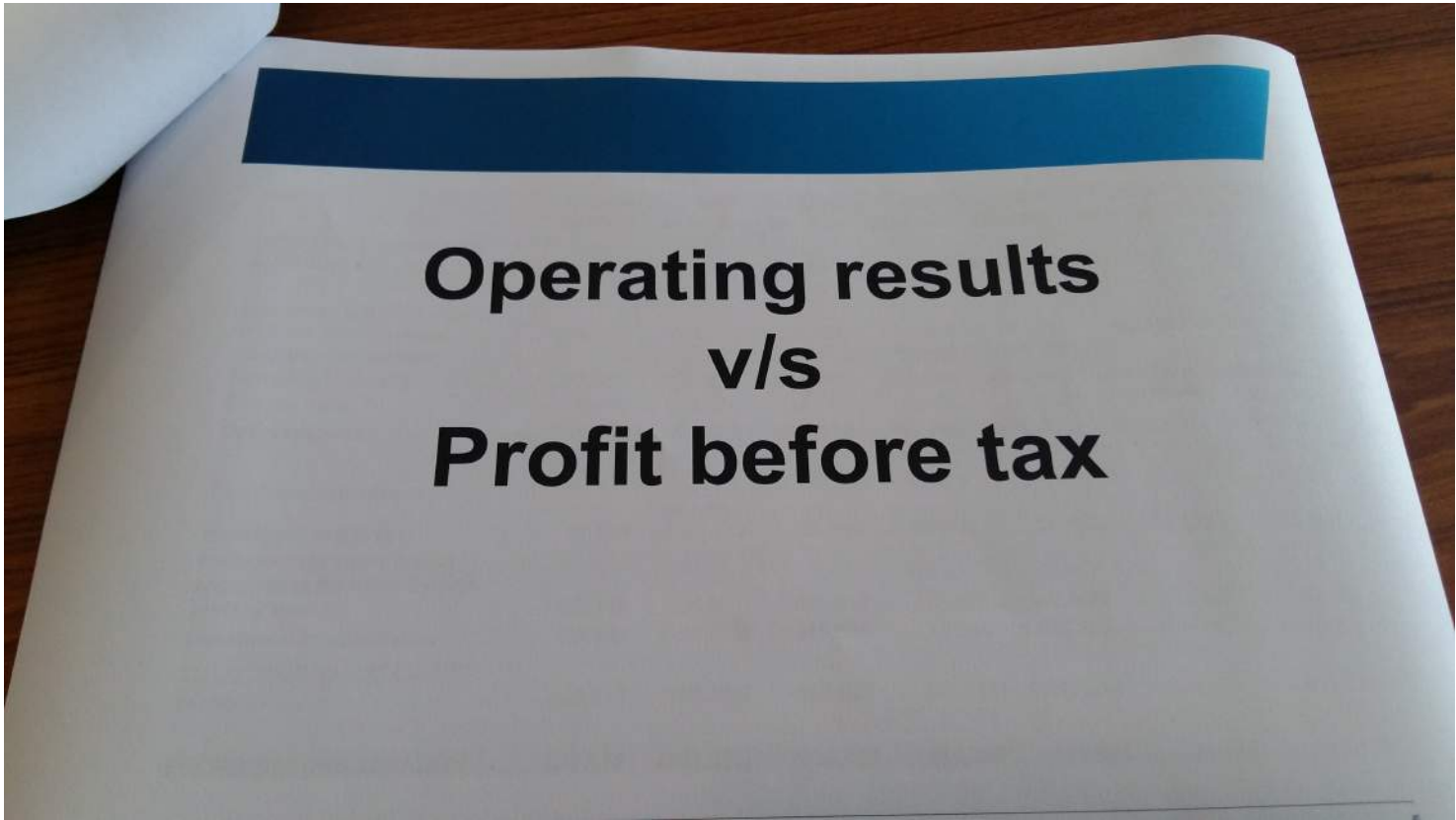
- Significant audit risks
- Involvement of experts
- Results 2004 – 2010
- Financial position 2007 - 2010
 - Exposure of assets in related companies
 - Liquid assets, realisable values & cash flows
- Insurance contract liabilities
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Significant Audit Risks

- **Loss from operating activities**
- **Valuation of investments**
- **Interest recognised (fair value) on CCRP**
- **Recoverability of current accounts receivable**
- **Asset - Liquidity position**

Involvement of Experts

- **IRM specialist**
 - KPMG IT department performed an IT review on the IT systems
- **Actuary**
 - Actuarial report reviewed by KPMG South Africa Actuary



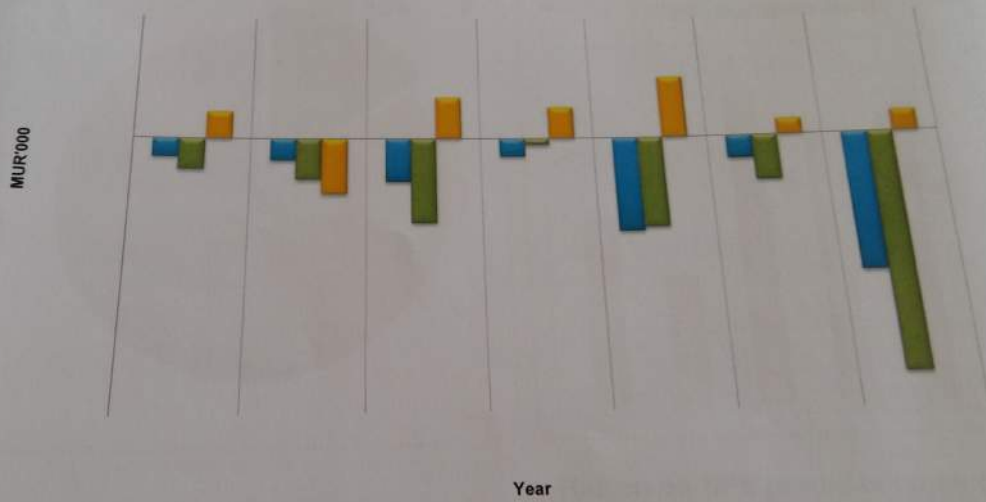
**Operating results
v/s
Profit before tax**

Results 2004 – 2010

Year	2004	2005	2006	2007	2008	2009	2010
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000
LOSS FROM INSURANCE BUSINESS	(143,842)	(170,786)	(340,693)	(143,037)	(727,394)	(177,931)	(1,045,404)
Investment and other income (excl fair value changes)	194,621	173,210	(57,862)	383,413	383,215	360,255	(188,545)
Reversal of impairment	-	-	-	20,086	175,120	-	-
Operating expenses	(283,659)	(311,378)	(241,440)	(252,960)	(320,184)	(503,792)	(503,662)
Finance costs	(8,918)	(13,921)	(18,345)	(40,394)	(33,488)	(32,041)	(23,220)
Operating loss	(241,798)	(322,875)	(658,340)	(32,892)	(522,731)	(353,509)	(1,760,830)
Fair value gains/losses:							
Investment properties	37,068	35,752	24,998	105,547	34,450	25,098	35,010
Investment in equity & debt securities at fair value through profit or loss	302,149	(25,263)	652,818	103,507	(962,440)	(162,598)	590,132
Investment in subsidiaries	120,393	(118,775)	315,606	78,064	1,945,805	615,757	1,303,569
TOTAL FAIR VALUE GAINS/LOSSES	459,610	(108,286)	993,422	287,118	1,017,815	478,257	1,928,711
PROFIT BEFORE TAXATION	217,812	(431,161)	335,082	254,226	495,084	124,748	167,881

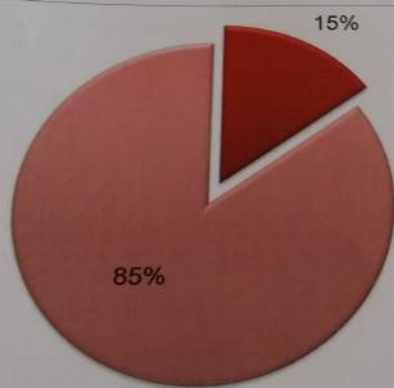
Results 2004 – 2010 (cont'd)

Operating Loss vs. PBT



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Insurance portfolio composition



SPE composition



Return on SPE products ranging from 5.5% to 11.2% (guaranteed returns)

Growth in Insurance premiums



Single premiums

	A-2008 MUR'000	A-2009 MUR'000	A-2010 MUR'000	E-2011 MUR'000	E-2012 MUR'000	E-2013 MUR'000
Gross premiums	3,402,944	3,624,176	5,194,811	7,272,735	10,181,830	14,254,561
Claims & benefits	(1,149,409)	(1,893,978)	(3,061,238)	(4,897,982)	(7,836,770)	(12,538,833)
Insurance fund movement	(2,985,981)	(2,114,225)	(2,837,874)	(3,973,024)	(5,562,233)	(7,787,126)
Net deficit	(732,447)	(384,027)	(704,302)	(1,598,270)	(3,217,174)	(6,071,398)

Assumptions:

- 40 % increase in premiums
- 60 % increase in claims & benefits (including bonuses)
- 40% increase in insurance funds

Single premiums – expected return

Example:

- Deposit of MUR 100, with maturity term 7 years and guarantee return of 10%
- Commission expenses estimated at 0.40% of deposit amount
- Other expenses estimated at 2% of deposit amount
- Based on IRR calculations, the MUR 98 net deposit should bring return of **10.50%** p.a to enable Company to pay guaranteed return.
- **Is the Company yielding such returns on its investments?**

Net deficit v/s return achieved

	2008 MUR'000	2009 MUR'000	2010 MUR'000
<i>Gross premiums:</i>			
Regular premiums	642,844	681,794	832,023
Single premiums	3,402,944	3,624,176	5,194,811
	4,045,788	4,305,971	6,026,834
<i>Claims & benefits:</i>			
Regular premiums	(427,579)	(420,691)	(497,978)
Single premiums	(1,149,409)	(1,893,978)	(3,061,238)
	(1,576,989)	(2,314,669)	(3,559,216)
<i>Insurance fund movement:</i>			
Regular premiums	(115,639)	58,309	(518,778)
Single premiums	(2,985,981)	(2,114,225)	(2,837,874)
	(3,101,620)	(2,055,916)	(3,356,652)
Net deficit	(632,821)	(64,615)	(889,034)
Return achieved	150,365	189,057	161,463

* Return being achieved before interco balances and fair value gains/ losses.

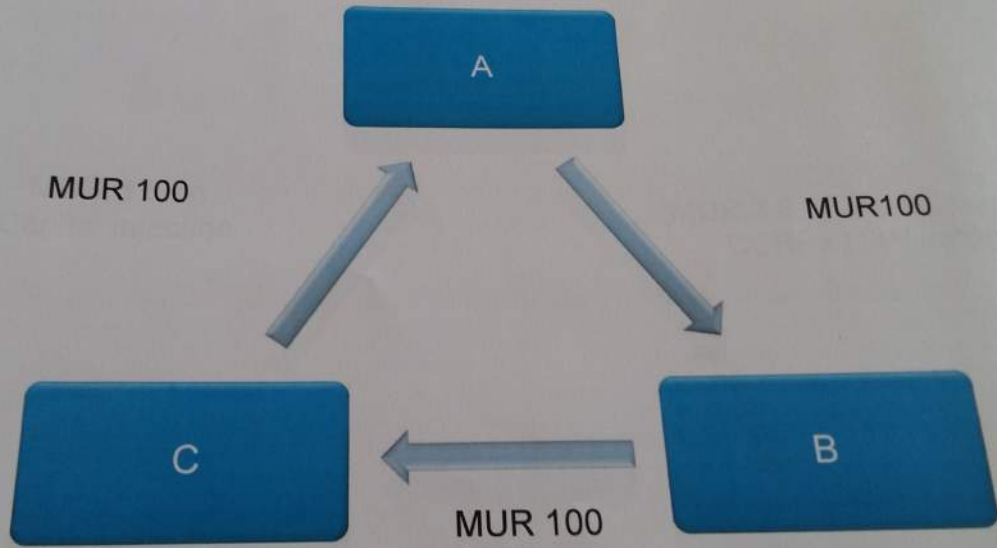
Surplus (or deficit)

	2008 MUR'000	2009 MUR'000	2010 MUR'000	E-2011 MUR'000	E-2012 MUR'000	E-2013 MUR'000
Opening surplus						
Change in retained earnings	(968,746)	(1,556,702)	(1,910,219)	(3,671,057)	(6,136,220)	(9,340,932)
Operating loss	(587,956)	(353,517)	(1,760,838)	(2,465,163)	(3,204,712)	(4,166,125)
Tax	(522,731)	(353,509)	(1,760,830)	(2,465,163)	(3,204,712)	(4,166,125)
Capital changes	(65,225)	(8)	(8)	-	-	-
Dividends	-	-	-	-	-	-
Closing surplus, before adjustments	(1,556,702)	(1,910,219)	(3,671,057)	(6,136,220)	(9,340,932)	(13,507,056)
	1,035,798	4,156,574	1,988,588	466,566	600,000	600,000
Depreciation & deferred tax adjustment	(5,179)	-	-	-	-	-
Fair value gains & losses	1,017,815	478,257	1,928,711	600,000	600,000	600,000
Revaluation reserve	18,162	7,283	2,477	-	-	-
Fair value reserve AFS	-	61,034	22,400	(83,434)	-	-
Other reserves	5,000	10,000	35,000	(50,000)	-	-
Share application monies	-	3,600,000	-	-	-	-
Adjusted closing surplus as per FS	1,186,771	4,989,828	5,217,578	3,218,981	614,270	(2,951,855)

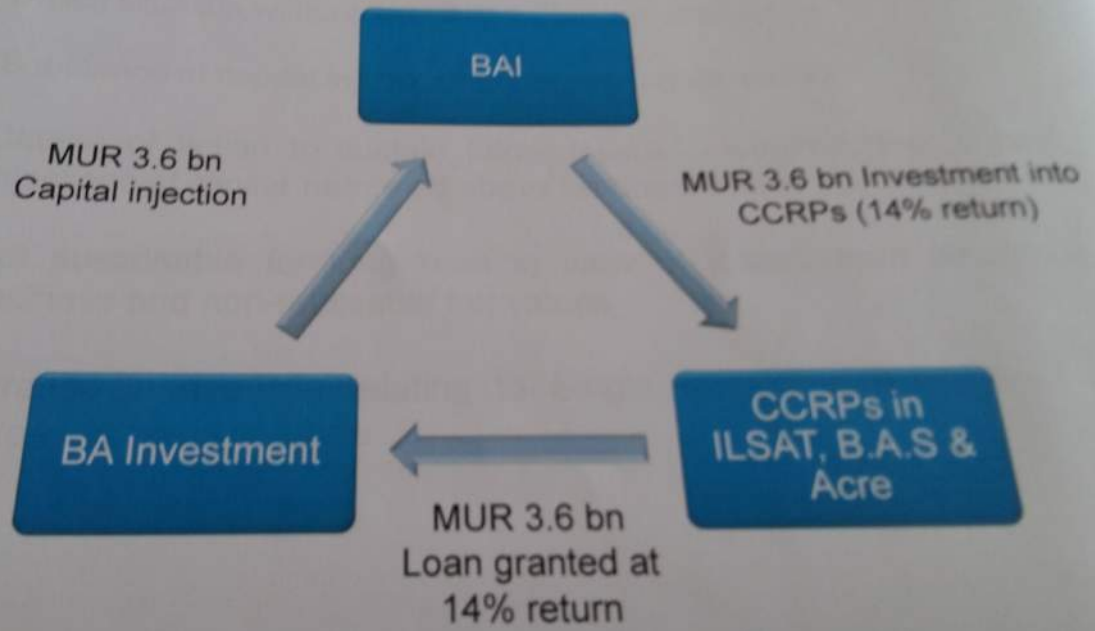
Assumptions:

- 40 % increase in operating loss and MUR'000 600,000 fair values being booked.

Example



Round tripping of transactions in 2009



Surplus (or deficit)

- Deficit situation without the MUR 3.6bn capital injection
- Substance of capital injection transaction – book entry?
- Course of action to sustain future losses – would further capital injections of similar nature as above be undertaken?
- Not sustainable for long term in view of losses from insurance business and non-realisable fair values
- Increase in deposits relating to Single premiums would lead to increased costs in future

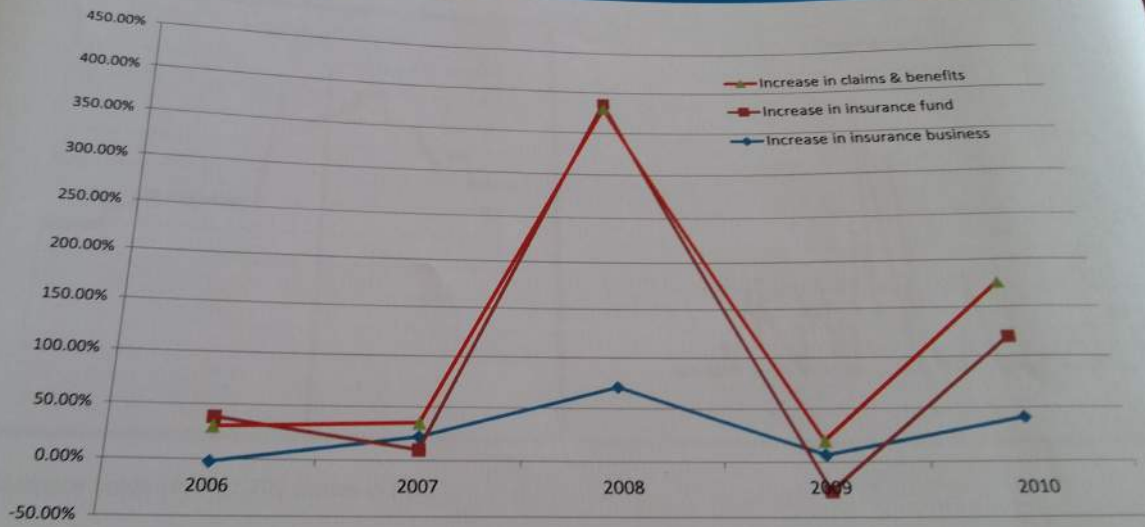
Results 2004 – 2010 (cont'd)

Operating Loss vs. PBT

- **High reliance on fair values compared to operating profit:**
 - Beverly Hills, Elysian & Hennessy (through BA Kenya) – MUR'000 493,150 (MUR 1.6bn in FY 08)
 - Societe Westpoint – MUR'000 22,400 (MUR'000 61,033 in FY 09)
 - MLC – MUR'000 802,430
- **Interest on CCRP (fair value):**
 - Interest at rate of 14% booked on CCRP in IIsat, B.A.S and Acre Services, amounting to MUR'000 504,000
 - Recoverability doubtful (Would BA Investment be able to sustain these entities in paying MUR'000 504,000 to BAI on a yearly basis?).
 - No cash flow movement expected
- **Premiums, Insurance Fund and Claims & Benefits**
 - Increase in insurance funds and claims & benefits outperform the increase in premiums

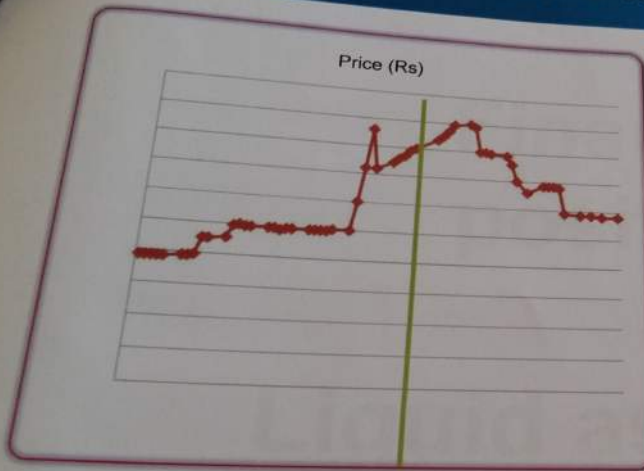
Results 2004 – 2010 (cont'd)

Growths – Premiums, Insurance Fund & Claims



- Increase in insurance funds and claims & benefits outperform the increase in premiums

Evolution of share price and volume traded for MLC



- Company holds 205,737,792 shares in MLC

**Financial
position:**

**Liquid assets v/s
liabilities**

Financial position 2007 - 2010

	2007 MUR'000	2008 MUR'000	2009 MUR'000	2010 MUR'000
Investment properties	869,681	914,006	969,035	993,374
Equity & Debt in related entities	3,392,773	5,827,418	10,074,440	11,883,597
Other investments	150,458	179,288	155,664	379,376
Mortgage loans & Policy loans on real estate	323,178	290,998	250,271	276,506
Deposits with financial institutions	94,630	113,477	96,640	474,313
TOTAL INVESTMENTS	4,830,720	7,325,187	11,546,050	13,807,166
Deferred tax asset	65,213	-	-	-
PPE & intangibles	349,418	400,322	452,145	320,347
Reinsurer's share of insurance provisions	1,382	1,367	3,341	16,208
Premiums and other insurance receivables	10,547	11,754	20,345	58,301
Other receivables and prepayments	112,086	92,126	100,990	370,224
Current a/c with related entities	1,370,203	2,201,044	3,682,982	5,132,166
Cash and bank balances	34,138	75,819	251,332	122,338
TOTAL OTHER ASSETS	1,942,987	2,782,432	4,511,135	6,019,584
TOTAL ASSETS	6,773,707	10,107,619	16,057,185	19,826,750

2007 - 2010

	2007 MUR'000	2008 MUR'000	2009 MUR'000	2010 MUR'000
Share capital				
Share application monies				
Treasury shares	100,000	100,000	100,000	3,700,000
Reserves			3,600,000	
TOTAL SHAREHOLDER'S EQUITY	(18,566)	(18,566)	(18,566)	(18,566)
Insurance fund	657,495	1,105,337	1,323,653	1,536,143
Reinsurance payables	738,929	1,186,771	5,005,087	5,217,577
Retirement benefit obligations	5,288,634	8,394,689	10,448,960	13,821,656
Claims outstanding	4,192	661	8,448	16,110
Other policy liabilities	60,793	76,325	13,162	12,058
TOTAL POLICY LIABILITIES	8,252	9,446	9,009	7,877
Finance lease obligations	12,915	15,188	8,055	6,994
Current account with related companies	5,374,786	8,496,309	10,487,634	13,864,695
Trade and other payables	16,484	19,958	17,563	6,169
Bank overdrafts	105,774	43,222	6,739	5,058
TOTAL OTHER LIABILITIES	309,497	204,356	485,478	733,251
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	228,237	157,003	54,684	-
	659,992	424,539	564,464	744,478
	6,773,707	10,107,619	16,057,185	19,826,750

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Financial position 2007 - 2010

	2007	2008	2009	2010
	MUR'000	MUR'000	MUR'000	MUR'000
Share capital				3,700,000
Share application monies	100,000	100,000	100,000	-
Treasury shares	-	-	3,600,000	-
Reserves	(18,566)	(18,566)	(18,566)	(18,566)
TOTAL SHAREHOLDER'S EQUITY	657,495	1,105,337	1,323,853	1,536,143
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Exposure of assets in related entities

	2007 MUR'000	2008 MUR'000	2009 MUR'000	2010 MUR'000
Investments in related entities	3,392,773	5,827,418	10,074,440	11,683,597
Current account with related entities	1,370,203	2,201,044	3,682,982	5,132,166
Exposure of assets in related companies	4,762,976	8,028,462	13,757,422	16,815,763
Total assets	6,773,707	10,107,619	16,047,980	19,826,750
% of total assets	70%	79%	86%	85%
Dividends received from related companies	137,542	38,091	48,116	2,754
Interest income on current account balances	109,759	232,850	339,172	442,380
	247,301	270,941	387,288	445,134
RETURN ON RELATED COMPANIES	5.2%	3.4%	2.8%	2.6%

* Interest on current a/c are capitalised, with remote cash movements

Exposure of assets in related entities (cont'd)

<i>Current a/c balances</i>	Balance Rs	Impairment Rs	Net Rs
BA Investment	2,254,304,345	-	2,254,304,345
B A Treasury Co. Ltd	1,753,366,262	-	1,753,366,262
BAHEL	460,000,000	-	460,000,000
Greensboro Promoters Ltd	583,585,582	(268,585,582)	315,000,000
Bramer Holding Co Ltd	198,955,238	(37,916,000)	161,039,238
Acre Services Ltd	143,292,309	-	143,292,309
Other related companies	262,713,450	(217,550,073)	45,163,377
	5,656,217,187	(524,051,655)	5,132,165,532

- Impairment on CCRPs at 31 Dec 2010 – MUR 500 mn

Capital tied up in receivables which can be used in a more judicious manner

Liquid assets

	2009 MUR'000	2010 MUR'000	Liquid asset?	
Investment properties	969,035	993,374	X	Not readily realisable
Equity & Debt in related entities	10,074,440	11,683,597	X	Investment in CCRP, unquoted related companies values with high fair values. Only quoted investment in MLC which may not be readily due to low trading volumes.
Other investments	155,664	379,376	√	Significant part of Investment in quoted shares, fund of funds
Mortgage loans & Policy loans on real estate	250,271	276,506	X	Difficult to request rapid repayments of mortgage loans
Deposits with financial institutions	96,640	474,313	√	Deposits with 6 – 12 months' maturities
TOTAL INVESTMENTS	11,546,050	13,807,166		

Realisable values?

	2010 MUR'000	
Societe West Point	134,400	Underlying - property
BA Kenya	2,464,209	Insurance company, Asset Manager in Kenya and Equity Bank
Bramer Holding	1,281,210	Underlying – Investment in BBC
Property at Castel	227,750	
Property at Reverund Le Brun, Port Louis	136,000	
Property at Curepipe	124,600	

From years 2008-2010, K.K Patel disposed at fair value to related company, BPF (MUR'000 178,453)

Cash flows

	2008 MUR'000	2009 MUR'000	2010 MUR'000
Net premiums written	4,045,131	4,306,270	6,070,924
Claims and benefits incurred			
Acquisition costs	1,586,511	2,332,994	3,627,439
Operating expenses	89,752	112,079	151,378
Total Direct costs	320,184	503,792	502,112
	1,996,447	2,948,865	4,280,929
Net premiums less direct costs	2,048,684	1,357,405	1,789,995
Net loans granted to related companies	(830,841)	(1,481,938)	(1,975,833)
Investments financed to related companies	(1,294,110)	(3,617,072)	(159,906)
Other investments financed	(17,387)	(11,254)	(175,590)
Share capital	-	3,600,000	-
As per above	(93,654)	(152,859)	(521,334)
Per statement of cash flows	(81,184)	196,648	122,338
Other movements	12,470	349,507	643,672



**Insurance
contract liabilities**

Maturity profile of insurance liabilities



✓ How cash to be generated to payout
MUR'000 4,180,395
in year 2011?

✓ Liquid assets
amount to MUR'000
976,027

✓ High reliance on
renewals to finance
maturity payouts

Review of actuarial report

- Policyholders' funds being invested in assets in related entities where minimal return obtained and recoverability low.
- Not sustainable for long term – liquidity issue
- Asset liability mismatch highlighted again by Richard Leiser Banks, Company's Actuary and KPMG's Actuary. How far progress has been made compared to prior year?
- Report of Richard Leiser Banks (section 8.4.2):
 - The risk of actual return on investment falling below guaranteed return is low? On what basis same being calculated.
 - KPMG's observation: 3-4% return (cash basis)
- If risk premia too high – liabilities would be understated

Management letter

- Improvements for IRM

Forthcoming changes

- **Revised IFRS 4 (effective 01 January 2013)**
 - measure insurance contracts using a current measurement model where current estimates are remeasured at end of each reporting period;
 - four building block model
 - current estimate of future cashflows
 - discount rate that adjusts those cashflows for the time value of money
 - explicit risk adjustment (adjust uncertainty about amount and timing of cash flows)
 - residual margin that eliminates any gain at the inception of the contract
 - a revised presentation for the statement of financial position and statement of comprehensive income
 - the proposals also may significantly impact systems, data, tax, reporting, and control processes
 - a slight decrease in the discount rate would have significant impact on the insurance liabilities

Forthcoming changes (cont'd)

- **IFRS 9: Financial Instruments (effective 1 January 2013)**
 - IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39.
 - Approach to be based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets.
 - A single impairment method to be used, replacing the many different impairment methods in IAS 39.
 - Thus IFRS 9 improves comparability and makes financial statements easier to understand for investors and other users.