

REPORT OF THE CENTRAL BANK OF TRINIDAD AND TOBAGO TO THE HIGH COURT PURSUANT TO SECTION 44E (7) OF THE CENTRAL BANK ACT, CHAP 79:02 (AS AMENDED) FOR THE QUARTER ENDED MARCH 31, 2017

RE: THE PROGRESS OF PROPOSALS TO RESTRUCTURE COLONIAL LIFE INSURANCE COMPANY (TRINIDAD) LIMITED (CLICO), BRITISH AMERICAN INSURANCE COMPANY (TRINIDAD) LIMITED (BAT) AND CLICO INVESTMENT BANK LIMITED (CIB)

A. REQUIREMENTS OF SECTION 44E (7) OF THE CENTRAL BANK ACT CHAP. 79:02 (THE ACT)

1. Pursuant to section 44D of the Act, the Central Bank of Trinidad and Tobago (the Central Bank/the Bank) exercised its special emergency powers and assumed control of CIB on January 31, 2009 and of CLICO and BAT on February 13, 2009. The Central Bank, in accordance with section 44E(1) of the Act, published notifications to that effect, by way of Legal Notices Nos. 20, 32 and 33 of 2009 respectively [published in the Trinidad and Tobago Gazette (Extraordinary) Vol. 48 Nos. 15 and 21, respectively]. The assumption of control of CIB, CLICO and BAT were precipitated by the following circumstances:

- the interests of depositors, creditors and policyholders were threatened;
- the institutions were likely to become unable to meet their obligations; and
- the institutions were not maintaining high standards of probity or sound business practices.

These circumstances posed a danger of disruption, substantial damage, injury or impairment to the financial system of Trinidad and Tobago.

2. On September 20, 2011, section 44E of the Act was amended (by Act No. 18 of 2011) to provide for a stay of proceedings and a moratorium on certain rights on and after the publication of a notification under section 44E (1). A new section, 44E(7), was also added, which requires the Central Bank to report quarterly to the High Court and Parliament on:

- a) the proposals to restructure an institution in relation to which a notification has been published under subsection 44E(1); and
- b) the progress of the proposals referred to in paragraph (a),

until a notification under section 44E(5)(b) [lifting the 'stay'] or section 44G(1) [releasing the Bank's control] has been published in relation to that institution.

3. This is the Twenty-Second Quarterly Report of the Central Bank pursuant to section 44E (7) of the Act.

B. GOVERNMENT ASSISTANCE

4. Further to a Memorandum of Understanding between CL Financial Ltd and the Government of the Republic of Trinidad and Tobago (the Government) dated January 30, 2009 and in the interest of the stability of the financial system, the Government provided financial assistance in respect of CIB, CLICO and BAT.
5. On September 20, 2011, the Purchase of Certain Rights and Validation Act, No. 17 of 2011 (PCRVA) was enacted to validate and facilitate Government funding of a bailout of CLICO and BAT. The bailout involved Government's injection of funds between 2009 and 2010 into BAT and CLICO in exchange for ordinary and preference shares in CLICO as well as an offer in 2011 by Government to STIP holders of CLICO and BAT to purchase their rights under their policies. ("STIPs", as defined by the PCRVA, means an Executive Flexible Premium Annuity, Executive Single Premium Annuity, Group Advanced Protection, Guaranteed Annuity Advanced Protection Policy, Colonial Life Core Fund Series 6 issued by CLICO and an Executive Flexible Premium Annuity, Single Premium Annuity, Corporate Savings Contract and Flexible Premium Annuity II issued by BAT.)
6. The Government's assistance between the period 2011 and 2013 consisted of the following elements:
 - a) offer of cash payments to purchase STIPs with principal balances of less than \$75,000;
 - b) offer of a combination of cash and bonds to purchase STIPs with principal balances in excess of \$75,000;
 - c) special arrangements under the Compassionate Relief Programme for payments to policyholders suffering hardship;
 - d) special arrangements to purchase, over a two-year period, policies held by Credit Unions and Trade Unions.

Details of these payments are discussed in Section D below.

C. PLAN TO REPAY POLICYHOLDERS AND CREDITORS INCLUDING GORTT

7. Further proposals to restructure the companies to settle amounts owed to policyholders and creditors were developed by the Central Bank in consultation with the Minister of Finance. In March 2015, a new phase to resolve CLICO and BAT commenced and involves:
 - a) The sale of the "traditional insurance portfolios" of CLICO and BAT to suitable purchasers at prices consistent with independent valuations;

- b) Phased payments to STIP holders including the Government (as assignee of the rights of STIP holders who had accepted its offer) from the monetization of assets or transfer of assets in kind.
 - c) Monetization of assets or transfer of assets in kind to repay other creditors including the Government.
8. On July 13, 2016, in consultation with the Minister, further proposals were finalized to facilitate the earlier payment of Statutory Fund and non-Statutory Fund STIP holders including the Government (as assignee). The progress of the proposals for each phase is discussed in Section D below.
9. During the period of the Central Bank's control, CLICO has continued to administer its traditional insurance portfolio (insurance and annuity policies other than STIPS). Strategies have also been employed to rationalise expenses, operations and resources, to cease the sale of new business and to treat with the assets of CLICO consistent with the restructuring proposals.

D. DETAILS OF RESTRUCTURING, PAYMENTS AND PROGRESS

10. The following table sets out the progress in more detail for each of the stages of the restructuring.

	PHASES OF THE RESTRUCTURING	PROGRESS TO DATE
D(i)	Government's offer to purchase STIPs with principal balances of less than \$75,000	<p>There were 12,020 eligible STIP holders with products valued at \$347.0 million. Over the period March 1, 2011 to February 28, 2017, \$335.6 million was paid to the 11,126 STIP holders who applied. These represent 96.7% of the total value outstanding. Approximately 7.4% of the STIP holders did not apply for the offer. This represents 3.3% of the original outstanding liability.</p> <p>The Government's pay out closed on November 30, 2012 and re-opened from May 01, 2013 to May 29, 2013.</p>

	PHASES OF THE RESTRUCTURING	PROGRESS TO DATE
D(ii)	Compassionate Relief Programme for cash payments up to \$250,000.	<p>In April 2011, a programme was instituted to provide STIP holders who demonstrated a critical need with immediate cash up to \$250,000 in respect of their STIPs.</p> <p>Between April and November 2011, 637 applicants were paid \$128.4 million. The compassionate relief programme ended in November 2011 when arrangements for the processing of STIPs valued more than \$75,000 were finalised.</p>
D(iii)	<p>Government's offer to holders of STIPs with principal balances of over \$75,000 as follows:</p> <ol style="list-style-type: none"> a. An initial cash payment of \$75,000 each, b. The remaining balance in equal instalments via twenty (20) year zero coupon bonds. 	<p>There were 15,907 eligible STIP holders with products valued at \$12.3 billion. On November 22, 2011, the Government issued a \$1.5 billion 20-year 6% bond to finance the initial cash payment of \$75,000 for STIP holders who held principal balances exceeding \$75,000.</p> <p>Processing of applications for these STIP holders began on December 1, 2011. Applications were accepted in an alphabetical order during the period December 1, 2011 to February 29, 2012.</p> <p>15,042 STIP holders accounting for \$11.3 billion applied for the offer as at November 30, 2014. This represents 94.6 % of the total STIP holders and 91.9% of the total value of STIPs.</p> <p>The Government's pay out closed on November 30, 2012 and re-opened on May 01, 2013 to May 29, 2013.</p> <p>A facility was put in place to enable STIP</p>

	PHASES OF THE RESTRUCTURING	PROGRESS TO DATE
		<p>holders who may wish to convert their bonds to cash. Separate arrangements were made for 1-10 and 11-20 year bonds as follows:</p> <p>(i) 1-10 year bonds Financial institutions made an agreement with the Government to purchase the bonds from STIP holders at an average price of \$0.80 cents on the dollar for the 1-10 year bonds if all 1-10 bonds were sold as one package. In early December 2011, financial institutions began advertising offers to purchase bonds at a minimum rate of \$0.80 on the dollar, at their branches.</p> <p>(ii) 11-20 year bonds Bondholders had the option to exchange their 11-20 year bonds for units in a closed-end trust on a dollar for dollar basis. The October 10, 2011 National Budget included a provision for units in this trust to be listed on the Trinidad and Tobago Stock Exchange as well as an exemption of the income and dividends from tax. In this way, unit holders were able to sell their units for cash.</p> <p>The closed-end mutual fund called CLICO Investment Fund (the "Fund") was launched on November 1, 2012. The assets of the Fund consist of Republic Bank Limited shares and Government Securities. CLICO Trust Corporation Limited, which is wholly-owned by the Government, is the Trustee of the Fund.</p>

	PHASES OF THE RESTRUCTURING	PROGRESS TO DATE
		<p>The opening net asset value of each unit is \$25 and the offer price is 40 units for each \$1,000 nominal value of Government 11-20 Bonds. The units in the Fund are traded on the Trinidad & Tobago Stock Exchange at a price determined by supply and demand conditions. Unit-holders receive distribution payments from the income of the Fund.</p>
D(iv)	<p>Government's offer to purchase STIPs held by Trade Unions and Credit Unions, payments to be made over two (2) years.</p>	<p>There were 183 STIPs belonging to credit unions and trade unions valued at \$860 million. Arrangements were made to pay 50% of this value before the end of the year 2011 and the remaining 50% in the year 2012.</p> <p>The processing of payments to credit union and trade union STIP holders commenced on September 26, 2011. As at March 5, 2015, 172 applications valued at \$732.4 million were processed. This represented 93.9% of the total applicants.</p> <p>The Government's pay out offer closed on November 30, 2012 and re-opened on May 01, 2013 to May 29, 2013.</p>
D(v)	<p>Sale of the "traditional insurance portfolios" of CLICO and BAT to suitable purchasers at prices consistent with independent valuations.</p>	<p>Pursuant to section 44D(1)(vi) of the Central Bank Act Chap. 79:02, the independent valuations of the traditional insurance business portfolios of CLICO and BAT were both completed and received by the Bank.</p> <p>The international firm Oliver Wyman was engaged to advise on the sale of these portfolios of CLICO and BAT to a suitable purchaser and the sales process</p>

	PHASES OF THE RESTRUCTURING	PROGRESS TO DATE
		<p>for both CLICO and BAT was started. From a pool of interested bidders and in accordance with the sales process, four companies for the CLICO portfolio and four companies for the BAT portfolio were shortlisted to submit a binding offer by July 14, 2016 which was further extended to July 21, 2016. The bids received by the extended deadline were reviewed. Certain clarifications were sought and the feasibility of the proposals received was assessed. Based on the results of the assessment, the Bank is reviewing the options available to proceed.</p> <p>The 2015 Statutory Fund calculation has indicated that the CLICO Statutory Fund has sufficient and appropriate assets to back the traditional portfolio and other Statutory Fund liabilities.</p>
D(vi)	<p>First Partial Distribution pursuant to the CLICO Resolution Plan announced on March 27, 2015:</p> <ul style="list-style-type: none"> • Settlement of 85% of contractual liability as at the end of the interest term, to statutory fund STIP holders, including the Government (as assignee of the rights of such STIP holders). • The First Partial payment to the Government under the Statutory Fund to comprise (a) approximately \$4 billion in cash funded from the proceeds of the sale of Methanol Holdings (Trinidad) Limited (MHTL); and to include (b) the transfer of 	<p>On March 27, 2015, the Government received cash payments totalling \$4,200 million. These payments to the Government represent part settlement of the First Partial Distribution of 85% of CLICO's Statutory Fund liabilities to the Government (as assignee of rights of Statutory Fund policyholders who accepted Government's 2011 bail out offer).</p> <p>The processing of applications from the other Statutory Fund STIP holders as part of the First Partial Distribution under the Resolution Plan started on May 1, 2015. Over the period May 1, 2015 to July 25, 2016, approximately \$695.6 million was paid to 515 STIP holders under the First Partial Distribution. This sum represents</p>

	PHASES OF THE RESTRUCTURING	PROGRESS TO DATE
	<p>CLICO's shareholdings in Angostura Holdings Limited (AHL), CL World Brands Limited (CLWB) and Home Construction Limited to Government in lieu of cash, subject to an independent valuation pursuant to section 44D(vi) of the Act.</p>	<p>54.0% of the total statutory fund STIP liability to non-assenting STIP holders.</p> <p>The independent valuations of Angostura Holdings Limited and CL World Brands Limited earmarked for transfer or monetization under the Resolution Plan were received. Further to the Bank's consultations with the Minister of Finance pursuant to section 44F(5) of the Act, from February 2017 draft Sale and Purchase Agreements (SPAs) have been under review by the parties. Signing of the SPAs is expected shortly.</p> <p>An independent valuation of Home Construction Limited has been completed and forwarded to the Minister of Finance and an appropriate draft SPA is being prepared.</p>
D(vii)	<p>Second Partial Distribution of the remaining 15% (plus any accrued interest) to be met from the sale of Methanol Holdings (International) Limited (MHIL).</p> <p>Third Distribution - to mutual fund holders and non-resident STIP holders, including the Government as assignee of the rights of mutual fund holders and non-resident STIP holders who accepted Government's offer.</p> <p>On July 13, 2016, following consultation between the Central Bank and the Minister of Finance, special directions with respect to CLICO and BAT were issued to the Central Bank pursuant to section 44F(5) of the Act regarding a</p>	<p>CLICO was instructed to proceed to sell its shareholding in MHIL to a suitable buyer, consistent with the independent valuation and with the requirements of the MHIL Shareholders' Agreement. The independent valuation was completed by Duff & Phelps. CLF holds 7.53% of the MHIL shareholding in trust for the benefit of CLICO. These shareholdings along with those held in CLICO's name were offered to CEL which has the right of first refusal under the MHIL Shareholder Agreement. The first offer process concluded without a sale. CLICO and CLF made a second offer to CEL. The process is still ongoing.</p> <p>In January 2017, in light of the unanticipated delay in the sale of the MHIL shares and pursuant to directions</p>

	PHASES OF THE RESTRUCTURING	PROGRESS TO DATE
	<p>strategy to facilitate an earlier settlement of liabilities to unconnected “third party” STIP holders and mutual fund holders including the Government, as assignee of the rights of mutual fund holders and STIP holders. The Central Bank has issued these special directions to CLICO and BAT. This includes:</p> <ol style="list-style-type: none"> 1. Settlement of Government’s Statutory Fund liabilities by way of the transfer of shares and additional cash payments; 2. The final payment of Statutory Fund liabilities to third party non-Government STIPholders; and 3. The final settlement of Non-Statutory Fund liabilities to third party STIPholders and mutual fund holders including Government by way of the subordination of the Government’s claim as assignee of the rights of non-residential STIP holders and mutual fund holders. 	<p>from the Minister of Finance to the Central Bank, CLICO obtained an independent valuation of CLICO’s 100% shareholding in Occidental Investments Limited and Oceanic Investments Limited in preparation for the transfer of these shareholdings to the Government, thereby appropriately reducing CLICO’s liabilities to Government. The valuation report was completed and the Share Sale and Transfer Agreement executed by the parties on March 28, 2017.</p> <p>Pursuant to the directions from the Minister of Finance of July 13, 2016, payments commenced on July 25, 2016. Government received 3 further payments on July 29, August 18, and October 10, 2016 totalling \$3.1 billion.</p> <p>Over the period July 25, 2016 to February 28, 2017, approximately \$358.6 million (15% balance or, where applicable, 100% of contractual liability plus interest) was paid to 577 STIP and mutual fund holders. This sum represents 59.0% of the total value payable. The balance of monies owing to this group is available for payment as and when the individuals involved make the appropriate requests.</p> <p>The most recent available audited financial statements for CLICO which are for the 2015 financial year indicate that the Company as a whole is still insolvent.</p>
D(viii)	Subsequent Distributions - from the realization of other assets to other creditors outside the statutory fund and to the Government as Preference Shareholder in	This stage has not commenced.

	PHASES OF THE RESTRUCTURING	PROGRESS TO DATE
	subordination to the unsecured creditors but in priority to payment to Ordinary Shareholders.	
D(ix)	<p>The resolution plan for BAT - Funding assistance from the Government to facilitate phased payments to BAT's policyholders and creditors.</p> <p>First Partial Distribution - cash payments to all statutory fund STIP holders amounting to 85% of the principal balance only to commence upon receipt of funds from the Government.</p> <p>Second Partial Distribution of the remaining 15%.</p>	<p>The Government advanced funds to BAT on July 10, 2015 to meet key operational expenditures and the "traditional insurance" policyholder liabilities in the Statutory Fund and to pay the principal balance only (without interest) of the non-assenting STIP holders. The processing of applications for BAT STIP holders (85% of the principal value) for the First Partial Distribution under the Resolution Plan began on October 26, 2015.</p> <p>The processing of applications for final payments (15% balance, or, where applicable, 100% of principal value) to BAT STIP holders began from mid-August 2016. To date, 68.3% of the total amounts payable has been made and the balance will be paid as and when the STIP holders make the necessary requests.</p>

E. REPORT ON THE PROPOSALS TO RESTRUCTURE CIB

11. On June 15, 2012, the Board of Directors of the Central Bank agreed that the licence of CIB be mandatorily revoked with effect from October 17, 2011 (i.e. the date of the winding up order) in accordance with section 23(14) of the Financial Institutions Act, 2008.
12. An updated Statement of Affairs of CIB as of October 17, 2011 was submitted to the Official Receiver on June 21, 2012 listing CIB's assets as \$5,991,441,453 and liabilities as \$11,579,905,339 resulting in a negative solvency gap of \$5,588,463,886.
13. The Official Receiver forwarded a copy of the Statement of Affairs on August 22, 2012

to the Liquidator for his review. The review was completed and the Official Receiver informed that the Statement of Affairs was filed with the Court on October 26, 2012.

14. The Deposit Insurance Corporation Trinidad and Tobago, as the Court appointed Liquidator of CIB, submits bi-annual reports on the progress and status of the liquidation to the Official Receiver and Registrar of Companies.
