

**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
DECEMBER 31, 2011**

**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)**

Requirements of section 44E(7) of the Central Bank Act Ch. 79:02 (the Act):

1. Pursuant to section 44D of the Act, the Central Bank of Trinidad and Tobago being satisfied that 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, and also being of the opinion that the financial system of Trinidad and Tobago was in danger of disruption, substantial damage, injury or impairment as a result of the said circumstances, exercised its 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) published notifications to that effect in 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].
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 on:
 - a) The proposal 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 subsection (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 First Quarterly Report of the Central Bank pursuant to section 44E(7) of the Act.

Report on the Proposals to Restructure CLICO and BAT

4. On September 20, 2011, the Purchase of Certain Rights and Validation Act, No. 17 of 2011 was enacted to validate and facilitate Government's bailout plan. The plan included the purchase by Government of certain rights belonging to the holders of Short Term Investment Products (STIPs) with CLICO and BAT. Short Term Investment Products or STIPs, as defined by the Purchase of Certain Rights and Validation Act, 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.
5. The plan to restructure Clico and BAT involves two components:
 1. The repayment of 27,737 Short Term Investment Products, in both CLICO and BAT with total liabilities amounting to \$12.4 billion,
 2. The amalgamation of the remaining traditional policy business of Clico and BAT into a new adequately capitalised insurance company.
6. A structured settlement offer funded by the Government was made to STIPs owners. This offer consists of two parts: cash payments for STIPs valued up to \$75,000 and a combination of cash and bonds for STIPs valued in excess of \$75,000. In addition to this offer, special arrangements under the Compassionate Relief Programme were put in place for the payments to persons suffering hardship and a total of \$128.4 million. was paid out. Special arrangements were also made to repay Credit Unions and Trade Unions over a two-year period. While the process of payments to the STIPs holders is taking place preparations are also being made for the amalgamation of the traditional business of both CLICO and BAT into an adequately capitalised new insurance company.
7. The arrangements being put in place to achieve these objectives are discussed below along with an accompanying progress report.

RESTRUCTURING PROPOSALS FOR CLICO AND BAT	PROGRESS TO DATE
<p>1. Settlement offer to holders of STIPs with principal balances of less than \$75,000.</p>	<p>There are 11,943 eligible STIP holders with products valued at \$343.8 million. Over the period March to November 2011, \$317.4 million was paid to the 10,504 STIP holders who applied. These represent 92.3% of the total value outstanding. There remains 12% of STIP holders who have not yet applied for the offer. This represents 7.7% of the original products value.</p>
<p>2. Compassionate Relief Programme for cash payments up to \$250,000.</p>	<p>Commencing 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>The advertised criteria for approval were as follows:</p> <ol style="list-style-type: none"> 1. Cash is for non-discretionary purpose including the necessities of life 2. Failure to meet the need will result in serious prejudice to the client 3. The need for cash is immediate 4. Alternative sources of funds available to the client are limited. <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>
<p>3. Settlement 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 are 15,794 eligible STIP holders with products valued at \$12.1 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 hold principal balances exceeding \$75,000.</p> <p>Processing of applications for these STIP holders began on December 1, 2011. Applications are being accepted in an alphabetical order during the period December 1, 2011 to February 29, 2012.</p> <p>1,516 STIP holders accounting for \$0.9 billion have applied for the offer as at December 13, 2011. This represents 9.6% of the total STIP holders and 7.7% of the value of STIPs.</p>

RESTRUCTURING PROPOSALS FOR CLICO AND BAT	PROGRESS TO DATE
<p>4. Payments to Trade Unions and Credit Unions holding STIPs, to be made over two (2) years.</p>	<p>There are 181 STIPs belonging to credit unions and trade unions valued at \$857.2 million. Arrangements are being 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 December 13, 2011, applications from 69 of them valued at \$307.2 million, were processed.</p>
<p>5. The option to convert bonds to cash by STIP holders.</p>	<p>A facility has been put in place to enable STIP holders who may wish to convert their bonds to cash. Separate arrangements have been 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 are sold as one package. In early December, financial institutions began advertising offers to purchase bonds at the agreed average rate of \$0.80 on the dollar, at their branches.</p> <p>(ii) 11-20 year bonds Bondholders will be able 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 would be able to sell their units for cash.</p> <p>Arrangements to set up the trust are currently underway.</p>

RESTRUCTURING PROPOSALS FOR CLICO AND BAT	PROGRESS TO DATE
<p>6. Restructure CLICO and BAT by setting up an adequately capitalised new insurance company to service the existing traditional insurance policies and to conduct only traditional insurance business.</p>	<p>A new company would be established to focus solely on traditional insurance business, marketing products in accordance with its core mandate including individual annuities, group pensions and annuities and group health and life.</p> <p>The new company would be established with adequate assets and capital to support the traditional policy liabilities of both CLICO and BAT.</p> <p>A restructuring team comprising individuals with legal expertise, external consultants and relevant stakeholders was constituted to work out the legal and regulatory requirements for the new company. The team has completed a significant amount of work on the following areas:</p> <ul style="list-style-type: none"> • Human Resources: Design of an appropriate organisation structure and assessment of staffing costs, • Information Technology: Rationalisation of software and hardware needs, • Legal Matters: Assessment of a number of legal matters that may impact on the establishment of the new company, • Financial and Actuarial matters: Draft Pro-forma statements for 2012 and projections for two (2) additional years have been produced.

Report on the Proposals to Restructure CIB

8. Upon the Central Bank's assumption of control of CIB, the Central Bank appointed the Inspector of Financial Institutions as Manager of CIB with effect from January 31, 2009, pursuant to section 44D (3) of the Act.
9. On February 20, 2009, the third party deposit liabilities of CIB were transferred to First Citizens to facilitate payment under Government's bailout arrangements with effect from February 25, 2009. These liabilities were backed by Promissory Notes issued by the Central Bank on behalf of Government to First Citizens. This transfer was made pursuant to the Memorandum of Understanding dated January 30, 2009 between the Government and CL Financial Limited and the CIB Transaction Agreement between the Government, the Central

Bank of Trinidad and Tobago, CIB and First Citizens. As of October 17, 2011, a total of TT\$1,858,724,811 Deposit Liabilities has been transferred.

10. In April 2009, the Deposit Insurance Corporation (DIC) notified the public that CIB was closed. Between 2009 and 2010, the DIC paid out \$4,353,000 to those holders of fixed deposits who opted for this payment instead of the offer of the transfer to First Citizens.
11. In September 2009, the Government advanced TT\$22,822,573 to support the payout of the Islamic Banking Service (IBS) investors as that fund was liquidated. The Government is to be repaid once the IBS investments are sold.
12. On March 11th, 2009, Messrs Ernst & Young was appointed to produce a Statement of Affairs of CIB as of January 30th, 2009. The Statement of Affairs dated 24 June 2009 showed that CIB had a net asset value of approximately negative \$4.7 billion. In addition, the fact of the insolvency remained unchanged following Ernst & Young's follow up review in March and April 2010.
13. On April 16, 2010, the Manager of CIB petitioned the Court to wind up CIB, on the grounds of insolvency and on just and equitable grounds. On 27 September 2011 the Trinidad and Tobago National Insurance Board obtained a judgment after trial against CIB in the sum of One Hundred and Two Million, Five Hundred and Six Thousand, One Hundred and Twenty-Eight Dollars and Sixty-Four Cents United States Currency (US\$102,506,128.64) and Forty Six Million, Four Hundred and Ninety-Three Thousand Five Hundred and Sixty-Three Dollars and Forty Nine Cents, Trinidad and Tobago Currency (TT\$46,439,563.49).
14. On October 17, 2011, the Court ordered that CIB be wound up and that the Deposit Insurance Corporation be appointed as the Liquidator.