

## Press Release

For Immediate Release

### Choice Bank Limited

(A licensee under the International Banking Act, Chapter 267, Laws of Belize)

June 27<sup>th</sup>, 2018

The Bank is a Belize international business company duly licensed under the International Banking Act (“**I**BA”) to conduct international banking business in Belize and is regulated directly thereunder by the Central Bank of Belize (“**C**entral **B**ank”) and ultimately by the Minister responsible for banks and banking (Minister of Finance).

The Bank has recently experienced a liquidity event which has caused it to restrict client payments for a period of time. Subject to Central Bank of Belize and Minister of Finance approval for certain actions, which has not been forthcoming, the Bank intends to re-commence customer payment operations on about June 30<sup>th</sup>, 2018.

As of the end of December, 2017, as indicated in the Bank’s audited financial statements and further evidenced in the quarterly financial statements published by the Central Bank of Belize, the Bank held total deposit liabilities of US\$203mn with cash due from banks in the sum of US\$136mn.

Further, as of the end of December 2017, the Bank held total equity of US\$26mn, exceeding the minimum statutory required capital of US\$3mn by US\$23mn and maintained a risk weighted capital adequacy ratio of 12.4%, in excess of the legal requirement of 10%.

In compliance with Central Bank of Belize requirements that the Bank shall maintain a minimum aggregate holding of statutory approved liquid assets with a maturity of no more than one year, which shall be at least twenty four percent (24%) of its total deposit liabilities, the Bank met and exceeded its statutory approved liquid asset requirement of US\$48mn by US\$91mn as indicated in the December 2017 Quarterly Financials, with an overall approved liquid asset ratio of approximately 68%.

One of the primary areas of the Bank's international banking business, is the operation and management of an international payment system through the issuance and management of branded pre-paid (pre-funded) payment cards, which system is used internationally (primarily in Europe and North America) to effect payment of salaries and remuneration for employees and self-employed contractors, including employees/contractors in the adult entertainment sector.

In connection therewith, on June 3, 2008, the Bank entered into a license agreement with Mastercard International Inc. which permitted the Bank to issue Mastercard branded pre-paid payment cards internationally.

As of the end of December 2017, the Bank had over 305,000 active Mastercard branded pre-paid card holders with accumulated balances of approximately US\$91.9M

At the beginning of this year approximately 71% of the Bank's deposits were comprised of deposits relating to the Mastercard prepaid card business, of which 41% of its deposits consisted of deposits from clients engaged in the Adult Business.

Towards the end of 2017 and in the early part of 2018, Mastercard indicated to the Bank that it may restrict the Bank from issuing Mastercard branded pre-paid payment cards ("**Cards**") in jurisdictions that the Bank had hitherto been permitted to issue to, including North America and Europe (collectively "the **Restricted Jurisdictions**"). Funds deposited with the Bank to fund/load the Bank's prepaid cards business issued in the Restricted Jurisdictions represented more than 90% of the Bank's total prepaid card deposits and corresponding assets.

On January 17, 2018, the Central Bank issued a directive to the Bank requiring it to take steps to exit from the "adult" space in the prepaid card business by the end of 2018. The Bank's Adult business had operated without any compliance or related issues since inception, the rationale for the Central Bank directive is unknown by the Bank. As the Bank shares no correspondent Banks with any other Belizean Banks the Adult business was not a threat to any other Bank within the jurisdiction.

In February 2018, Mastercard conducted a review of the Bank's Mastercard-branded activities and in pursuance of the Adult Space Directive, the Bank communicated such directive to Mastercard as well as other relevant parties. In furtherance of this review, by letter dated March 15, 2018, despite the Bank's efforts to negotiate extensions of deadlines, Mastercard determined that the Bank would no longer be permitted to issue or maintain Cards in the Restricted Jurisdictions, that it must not newly issue or reissue any Cards and that as of the end of June, 2018, it must cease reloads of Cards. MasterCard change of rules applying to Restricted Jurisdictions is not specific to Choice Bank.

During the period of the first quarter of 2018, particularly in the months of February and March, 2018, notwithstanding that there had been no public disclosure of Mastercard's contemplations, the Bank experienced abnormally large cumulative withdrawals of deposits from customers primarily in the pre-paid card section of the Bank's business signaling in the view of the Bank the onset of a developing run on the Bank. In February, 2018, deposits fell by over 8% or US\$17mn while in March, 2018 deposits fell a further US\$19mn or over 10% of total deposit liabilities.

The Required Action and the Bank's compliance with its obligation to notify customers thereunder further exacerbated the cash outflow.

While the Bank continued to maintain its prudential ratios, including meeting and exceeding minimum statutory capital adequacy ratios, capital requirements and approved liquid asset requirements, in early April, 2018, based on internal financial projections, the Bank held the view that without intervention of the Central Bank of Belize as a statutory administrator, the Bank would shortly run out of available cash to meet the withdrawal demands of its depositors given its mismatch between very short-term liquidity demands of less than 30 days due to the run on the Bank and its statutory approved liquid assets (among other assets) with varying maturities, many of which ranged between three and six months.

By letter dated and delivered on Sunday, April 8, 2018, upon a resolution of its directors, the Bank voluntarily requested the Central Bank to appoint a Statutory Administrator and to seek relief from the Central Bank in the form an emergency infusion of funds with a view to enable an orderly liquidation process to protect and conserve assets of the Bank, and to manage cashflows in an

orderly fashion in the best interest of depositors, cardholders and other creditors of the Bank so that depositors and creditors of the Bank could be kept whole while working through the short-term liquidity challenges the Bank faced.

From conversations held with members of the Central Bank, it became clear that the Central Bank would not be making an immediate appointment as requested or responding to our letter with the urgency that the situation demanded. Consequently, the Bank had to resort to self-help and on April 10, 2018, pursuant to an expansion of the Bank's Funds Availability Policy which is referenced in its Depository Agreement General Terms and Conditions, the Bank gave notice to account holders that it had taken a decision to temporarily suspend withdrawals from deposit accounts so that it could better manage its liquidity position.

On April 12, 2018, representatives of the Bank attended a meeting with members of the Central Bank where the Central Bank gave no indication that it would appoint a Statutory Administrator but did indicate that it would place the Bank under enhanced supervision and require additional reporting on a timely basis. As a result the Bank, with a view to engage specialty assistance, appointed Quadrant Management, Inc. ("**Quadrant**") to act as its restructuring advisor. Quadrant is a US based investment management firm with extensive experience in restructuring various types of companies.

The Bank has kept the Central Bank fully informed of all measures it has taken and intends to take to manage its short-term liquidity position and repay depositors.

As at April 9, 2018 the Bank still maintained more than 305,000 prepaid cards outstanding which made up approximately US\$65 million of the Bank's total outstanding liabilities of US\$163 million. On the 8<sup>th</sup> of April, 2018, the Bank made a decision, that until a statutory administrator was appointed, it would not suspend withdrawals by prepaid cardholders since these accounts consist of very small deposits which cardholders require for their basic needs such as food and housing. In pursuance of the Required Action, cardholders have been notified that the card accounts will be closed on June 30, 2018 and that funds must be withdrawn by then. The Bank expects that the Prepaid Card Liabilities will have been fully repaid by end of June 2018 from the proceeds of monetized assets held by the Bank and through the release of collateral held by Mastercard.

In addition to the prepaid cards, the Bank had more than US\$16 million outstanding to depositors in respect of funds which had not yet been loaded to prepaid cards on April 10, 2018 (“the **Unloaded Card Deposits**”) when the Bank ceased the loading of such payments. These Unloaded Card Deposits are largely comprised of salaries deposited by employers to be uploaded to the prepaid cards of their employees. For that reason, the Bank also decided that these deposits should be given priority.

After communicating with various potential sources of liquidity, the Bank was able to monetize some of its illiquid assets through a surety insurance policy with United Insurance Company, a Cayman company (“**United**”). Under the policy United assumed US\$22 million of the Bank’s deposit liabilities (“the **First Tranche**”) including the US\$16 million of Unloaded Card Deposits. The remaining US\$6 million are allocated to a few corporate clients including Orion Corporate & Trust Services Ltd. as Trustee of clients who have made claims against the Bank. If the Court so orders, Choice will request United to bring in funds to Belize by converting US dollars to Belize Dollars to put the amount in escrow with the Court.

The assets assigned to United consist of investments in two investment funds which were appraised at a book value of US\$23 million but appraised fair market value of \$18.6 million.

United has already expressed its willingness to enter into a second tranche under a second surety insurance policy with the Bank through the assignment of additional illiquid assets of the Bank. The Bank is in the process of seeking the recommendation by the CBB and approval of the Minister of Finance to enter into a second tranche with United (“the Second Tranche”) for the assumption of US\$41 million of the Bank’s deposit and other liabilities in exchange for the assignment of approximately US\$49 million (in book value and roughly \$38 million appraised fair market value) of the Bank’s illiquid assets. Liabilities to the remaining Applicants will be assumed by United under the second tranche if approved. The Applicants can, therefore, expect to be repaid in full. This second tranche is critical to ensure the Bank can re-open for business effective about June 30th, 2018.

The Bank is making efforts to repay all remaining depositors not included in the second tranche (whose balances are approximately US\$35 million) by the end of September 2018.

Assuming the Central Bank and the Minister of Finance quickly approve the Second Tranche, the Bank plans to reopen on or about June 30, 2018.

Furthermore, the Bank currently holds deposits of approximately US\$14 million with a Puerto Rican International Bank (“**PR Banc**”). PR Banc terminated its correspondent banking relationship with the Bank however immediately after being contacted by the Central Bank of Belize, inexplicably has chosen to withhold payment of the said US\$14million to the Bank. The Bank has initiated legal process against PR Banc with a view to recover the said sum forthwith and has also reached out to the regulatory authorities in Puerto Rico and the Central Bank (which thus far has not be received) for assistance in recovery of the said funds.

If funds from PR Banc are returned, all depositors will have funds available up to US\$100,000. This will result in all except 125 accounts having access to 100% of their funds. Thus, within the next several weeks the Bank will place in escrow Belize dollars to satisfy all the remaining claims if so ordered.

On May 8, 2018 the Prime Minister and Minister of Finance wrote a letter to the Bank issuing certain directives pursuant to Section 27(1)(e) of the International Banking Act (“the **Preventative Measures**”) which require, among other matters, that the Bank provide to the CBB:

- proof of its long-term investments including daily changes in their value;
- daily statements and supporting documentation of all accounts held at financial institutions;
- details and proof of all other assets and liabilities;
- accelerate the raising of funds necessary to meet its existing obligations to all depositors;
- cease all related party transactions with the exception of Quadrant which the Bank does not agree is a related party under the International Bank Act;
- cease entering into any new contractual arrangements.

Essentially these requirements make it impossible for the Bank to conduct any business without Central Bank or Minister of Finance approval, which has not been forthcoming to accelerate repayment of depositors.

Furthermore, on June 7, 2018 the Central Bank issued a press release confirming that the Bank is under enhanced supervision and that certain preventative measures were implemented on May 8, 2018.

Apart therefrom, it should be noted that one of the Preventative Measures requires the Bank to accelerate the raising of funds. In order to raise funds to pay out depositors the Bank must liquidate its assets. The grant of an injunction restricting the Bank from liquidating its assets would be contrary to the directives issued by the Bank's regulators and contrary to the interests of depositors.

As the Bank has sought to liquidate its assets with a view to fully satisfying its depositor and other creditor liabilities, the Bank has at all times liquidated assets for valuable consideration at the best price reasonably obtainable in the circumstances in the best interest of depositors, creditors and stakeholders as a whole.

Over the five month period from December 31, 2017 ended May 31, 2018, the Bank has reduced its total deposit and other liabilities by US\$119 million from US\$214mn to US\$95mn, while its total assets have reduced by US\$123 million corresponding to a total loss of a little under \$4 million.

On June 14, 2018 representatives of the Bank met with representatives of the Central Bank and thereafter with the Prime Minister and made proposals for the settlement and payment of the Bank's obligations to depositors and to seek approval from the Central Bank for the entry by the Bank into the Second Tranche. Such approval has not yet been granted and the Bank has no indication that it may be.

Furthermore, on June 20, 2018 the Prime Minister and Minister of Finance wrote a letter to the Bank issuing certain directives pursuant to Section 27(1)(e) of the International Banking Act ("the **New Preventative Measures**") which are to replace the Preventative Measures issued in his letter of May 8, 2018. The New Preventative Measures require, among other matters, that the Bank:

a) Cease directly or indirectly disposing, assigning, charging, pledging, transferring, distribution or dissipating any asset or liability of Choice Bank or any subsidiary of Choice Bank, whether such asset or liability is located or held within or outside of Belize, without the prior written approval of the Central Bank of Belize;

b) cease directly or indirectly entering into, continuing or acting in furtherance of any contract or arrangement or taking any other action related to the disposal, assignment, charging, pledging, dissipation, distribution or transfer of any asset or liability of Choice Bank, whether such asset or liability is located or held within or outside of Belize, without the prior written approval of the Central Bank;

c) cease accepting new deposits and entering into any new contractual arrangements.

Thus, despite the Bank not having been put in statutory administration, the Central Bank and the Minister of Finance have in effect through the New Preventative Measures sought to take control of the Bank and the representatives of the Central Bank are acting as de facto directors of the Bank.

The Bank has been advised by the Bank's Attorneys-at-law and verily believe that the New Preventative Measures restrict the Bank from even negotiating possible settlements of these Claims without the approval of the Central Bank.

The Bank further been advised by the Bank's Attorneys-at-law and verily believe that the New Preventative Measures which have purportedly been issued by the Minister of Finance under Section 27(1)(e) of the International Banking Act and the conduct of the Central Bank in seeking to take control of the Bank without actually putting it into statutory administration are *ultra vires* their authority and unlawful.

As such, it is desirable that the Central Bank and the Minister of Finance be added as Interested Parties to all Claims the Bank faces to enable the Bank to be able to properly defend these Claims.

At the same time, the Bank has continued to maintain and comply with the Central Bank's prudential standards including approved liquid assets of US\$25.4 million or 28% of total deposit liabilities in excess of the legally required 24% as aforesaid..

Further the Bank denies claims that the Bank is attempting to 'de-nude itself in the jurisdiction of Belize by the movement of its assets or deposits to another jurisdiction. This has not occurred.

The Bank remains committed to its business in Belize and subject to Central Bank and Minister of Finance approvals intends to reopen for business about June 30<sup>th</sup>.