

# **U.S.-Cuba Trade and Economic Council, Inc.**

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In 2015, the Office of Foreign Assets Control (OFAC) of the United States Department of the Treasury authorized Pompano Beach, Florida-based **Stonegate Bank** (2017 assets approximately US\$2.9 billion) to have an account with Republic of Cuba government-operated Banco Internacional de Comercio SA (BICSA), a member of Republic of Cuba government-operated Grupo Nuevo Banca SA, created by Corporate Charter No. 49 on 29 October 1993 and commenced operation on 3 January 1994.

Stonegate Bank provides commercial operating accounts for the Embassy of the Republic of Cuba in Washington, DC and the Permanent Mission of the Republic of Cuba to the United Nations in New York City; the financial institution also handles other types of OFAC-authorized transactions.

In September 2017, Stonegate Bank was purchased by Conway, Arkansas-based **Home BancShares** (2018 assets approximately US\$14 billion) through its Centennial Bank subsidiary.

The Obama Administration did not authorize BICSA under a general OFAC license or reportedly in the OFAC license issued to Stonegate Bank for it to have an account with Stonegate Bank, so Stonegate Bank has processed transactions for approximately eighty (80) customers on a regular basis through **Panama City, Panama-based Multibank**, which has dealings with the Republic of Cuba.

Previously, officials within the OFAC and United States Department of State shared that if a license application were submitted, the license application would likely be approved.

Trade Sanctions Reform and Export Enhancement Act of 2000 (TSREEA) exports (agricultural commodities and food products) since first use by the Republic of Cuba in December 2001 are **US\$5,967,305,815.00** through March 2019. TSREEA requires that payments be made on a cash-in-advance basis; no other payment terms are permitted. Since 2003, healthcare product exports (payment terms are permitted) from the United States to the Republic of Cuba are approximately US\$25,206,592.00 under provisions of the Cuban Democracy Act (CDA) of 1992.

Third-country financial institutions, including Montreal, Canada-based National Bank of Canada (2018 assets approximately US\$250 billion) and those located on the European Continent, provide payment facilitation services for purchases made by Republic of Cuba government-operated Empresa Cubana Importadora de Alimentos (Alimport). Third-parties have received fees on nearly all of the US\$5.9 billion in TSREEA-related transactions.

## **Home BancShares**

The eight-page **2018 Annual Report** for Conway, Arkansas-based Home BancShares did not mention the Republic of Cuba; the 190-page 2017 Annual Report did mention the Republic of Cuba.

**The 89-page Form 10-Q filed on 6 May 2019 with the United States Securities And Exchange Commission (SEC).**

## **CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Some of our statements contained in this document, including matters discussed under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operation,” are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements relate to future events or our future financial performance and include statements about the competitiveness of the banking industry, potential regulatory obligations, our entrance and expansion into other markets, including

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through potential acquisitions, our other business strategies and other statements that are not historical facts. Forward-looking statements are not guarantees of performance or results. When we use words like “may,” “plan,” “contemplate,” “anticipate,” “believe,” “intend,” “continue,” “expect,” “project,” “predict,” “estimate,” “could,” “should,” “would,” and similar expressions, you should consider them as identifying forward-looking statements, although we may use other phrasing. These forward-looking statements involve risks and uncertainties and are based on our beliefs and assumptions, and on the information available to us at the time that these disclosures were prepared. These forward-looking statements involve risks and uncertainties and may not be realized due to a variety of factors, including, but not limited to, the following:

Number 16 of 17 Listed:

risks associated with our customer relationship with the Cuban government and our correspondent banking relationship with Banco Internacional de Comercio, S.A. (BICSA), a Cuban commercial bank, through our recently completed acquisition of Stonegate Bank;

**The 177-page Form 10-K filed on 26 February 2019 with the United States Securities And Exchange Commission (SEC).**

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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16<sup>th</sup> of 23:

risks associated with our customer relationship with the Cuban government and our correspondent banking relationship with Banco Internacional de Comercio, S.A. (BICSA), a Cuban commercial bank, through our recently completed acquisition of Stonegate Bank;

### Other Banking Services

As a result of our acquisition of Stonegate in September 2017, we also offer credit cards to both consumers and businesses. Credit cards typically involve a higher degree of credit risk since outstanding balances are unsecured and repayment of such balances is often negatively impacted by a decline in economic conditions. Our credit cards offer a variety of benefits and features designed to meet the needs of our customer. In addition, our consumer credit cards can be used in Cuba.

Our banking relationships with the Cuban government and Banco Internacional de Comercio, S.A. (“BICSA”) may increase our compliance risk and compliance costs. U.S. persons, including U.S. banks, are restricted in their ability to establish relationships and engage in transactions with Cuba and Cuban persons pursuant to the existing U.S. embargo and the Cuban Assets Control Regulations. However, as a

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result of our acquisition of Stonegate Bank in 2017, we maintain a customer relationship to handle the accounts for Cuba's diplomatic missions at the United Nations and for the Cuban Interests Section (now the Cuban Embassy) in Washington, D.C. This relationship was established in May 2015 pursuant to a special license granted to Stonegate Bank by the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC") in connection with the reestablishment of diplomatic relations between the U.S. and Cuba. In July 2015, Stonegate Bank established a correspondent banking relationship with Banco Internacional de Comercio, S.A. ("BICSA") in Havana, Cuba.

Cross-border correspondent banking relationships pose unique risks because they create situations in which a U.S. financial institution will be handling funds from a foreign financial institution whose customers may not be transparent to the U.S. financial institution. Moreover, Cuban financial institutions are not subject to the same or similar regulatory guidelines as U.S. banks; therefore, these foreign institutions may pose a higher money laundering risk to their respective U.S. bank correspondent(s). Investigations have determined that, in the past, foreign correspondent accounts have been used by drug traffickers and other criminal elements to launder funds. Shell companies are sometimes used in the layering process to hide the true ownership of accounts at foreign correspondent financial institutions. Because of the large amount of funds, multiple transactions, and the U.S. bank's potential lack of familiarity with a foreign correspondent financial institution's customer, criminals and terrorists can more easily conceal the source and use of illicit funds. Consequently, we may have a higher risk of noncompliance with the Bank Secrecy Act and Anti-Money Laundering ("BSA/AML") rules due to our correspondent banking relationship with BICSA and will likely need to more closely monitor transactions related to correspondent accounts in Cuba, potentially resulting in increased compliance costs. Our failure to strictly adhere to the terms and requirements of our OFAC license or our failure to adequately manage our BSA/AML compliance risk in light of our correspondent banking relationship with BICSA could result in regulatory or other actions being taken against us, which could significantly increase our compliance costs and materially and adversely affect our results of operations.

### **Stonegate Bank**

On September 26, 2017, the Company completed the acquisition of all of the issued and outstanding shares of common stock of Stonegate Bank ("Stonegate"), and merged Stonegate into Centennial. The Company paid a purchase price to the Stonegate shareholders of approximately \$792.4 million for the Stonegate acquisition. Under the terms of the merger agreement, shareholders of Stonegate received 30,863,658 shares of HBI common stock valued at approximately \$742.3 million plus approximately \$50.1 million in cash in exchange for all outstanding shares of Stonegate common stock. In addition, the holders of outstanding stock options of Stonegate received approximately \$27.6 million in cash in connection with the cancellation of their options immediately before the acquisition closed, for a total transaction value of approximately \$820.0 million.

Including the effects of purchase accounting adjustments, as of acquisition date, Stonegate had approximately \$2.89 billion in total assets, \$2.37 billion in loans and \$2.53 billion in customer deposits. Stonegate formerly operated its banking business from 24 locations in key Florida markets with significant presence in Broward and Sarasota counties.

Through our acquisition and merger of Stonegate into Centennial, we maintain a customer relationship to handle the accounts for Cuba's diplomatic missions at the United Nations and for the Cuban Interests Section (now the Cuban Embassy) in Washington, D.C. This relationship was established in May 2015 pursuant to a special license granted to Stonegate by the U.S. Treasury Department's Office of Foreign Assets Control in connection with the reestablishment of diplomatic relations between the U.S. and Cuba. In July 2015, Stonegate Bank established a correspondent banking relationship with Banco Internacional de Comercio, S.A. in Havana, Cuba. As of December 31, 2017, this correspondent banking relationship does not have a material impact to the Company's financial position and results of operations.

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During 2017, the Company acquired a total of 33 branches through the acquisitions of GHI, BOC and Stonegate. In an effort to achieve efficiencies, primarily from the Stonegate acquisition, the Company closed 12 Florida locations during the first quarter of 2018.

See Note 2 “Business Combinations” in the Notes to Consolidated Financial Statements for an additional discussion regarding the acquisition of Stonegate.

### **LINK To:**

Home BancShares Reports On Its Risks Associated With Cuba-Related Banking Services  
5 May 2018

**LINK To 2018 Annual Report**

**LINK To 10-K Filing**

**LINK To 10-Q Filing**

**LINK To 2017 Annual Report**